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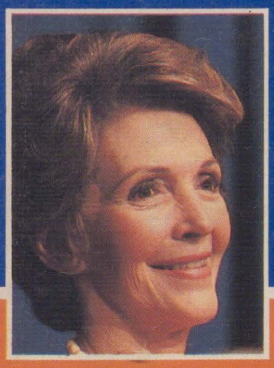
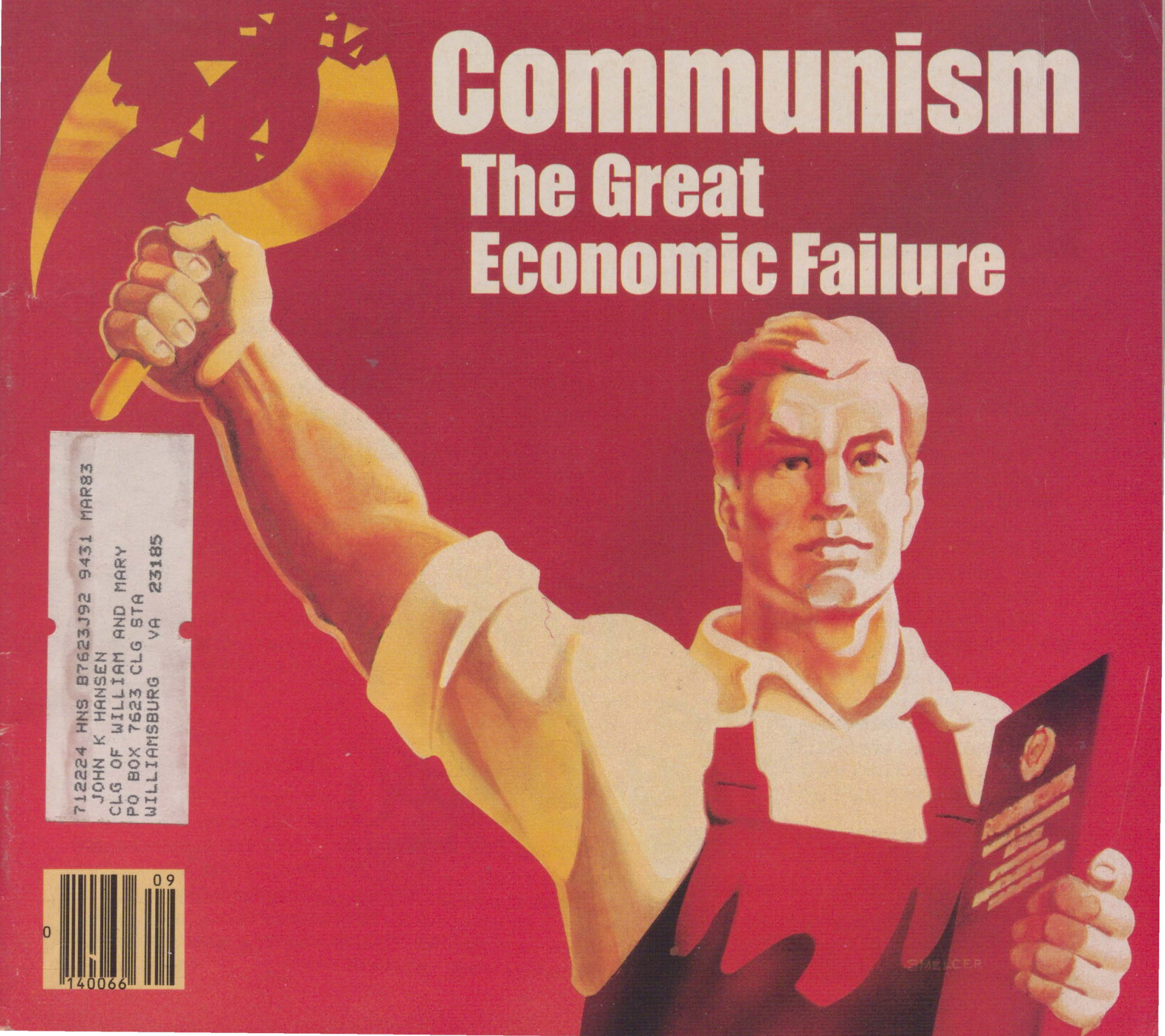


A "New" Nancy Reagan Steps Out

What You Can Earn on Your Savings Now

Communism
The Great Economic Failure



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Which is the lowest 100's? (Hint: it's not Carlton.)

Now is the lowest tar 100s. But it's easy to see why some people think the right answer is Carlton. Carlton's been advertising itself as lowest for a very long time. And, in fact, at one time, it was.

But that time is long gone. Look at the chart on the right and see for yourself.

The truth is that today, Now 100s Soft Pack, at 2 mg., contains less than half the tar of Carlton 100s Soft Pack, at 5 mg. (Is any cigarette with 5 mg. of tar even seriously competing for the title of "lowest?")

And Now 100s Box is by far and away lower in tar than any other 100s whatsoever.

Which is the lowest 100s? No need to guess–Now.

NUMBERS DON'T LIE. NOW 100s ARE LOWER THAN CARLTON 100s.

	100's soft pack regular	100's soft pack menthol	100's box
NOW	2mg	2mg	Less than 0.01mg
CARLTON	5mg	5mg	1mg

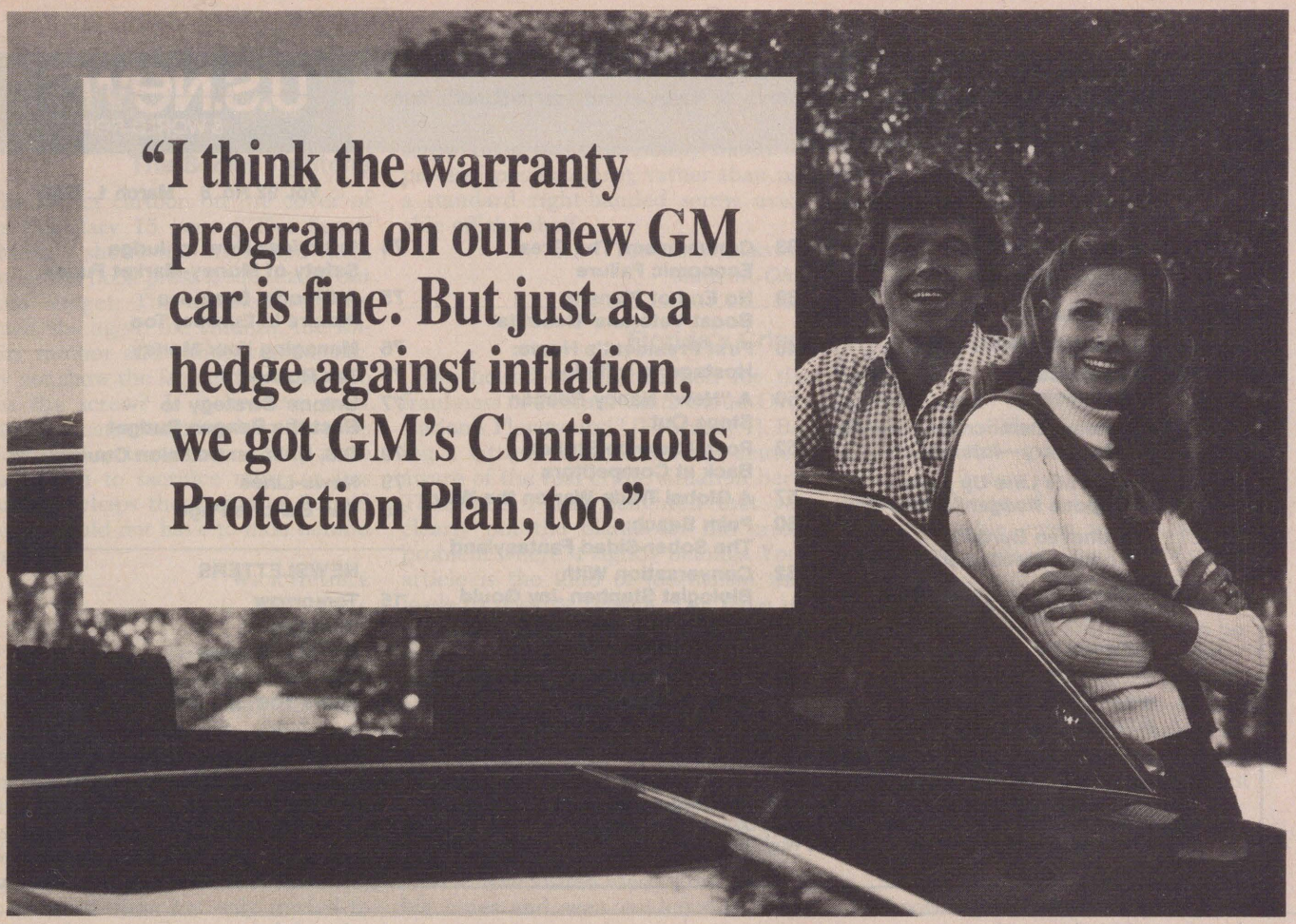
All tar numbers are av. per cigarette by FTC method.

NOW The Lowest

The lowest in tar of all brands.

Warning: The Surgeon General Has Determined That Cigarette Smoking Is Dangerous to Your Health.

BOX, BOX 100's: Less than 0.01 mg. "tar", 0.001 mg. nicotine, SOFT PACK 85's FILTER, MENTHOL: 1 mg. "tar", 0.1 mg. nicotine, SOFT PACK 100's FILTER, MENTHOL: 2 mg. "tar", 0.2 mg. nicotine, av. per cigarette by FTC method.


"I think the warranty program on our new GM car is fine. But just as a hedge against inflation, we got GM's Continuous Protection Plan, too."

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Continuous Protection Plan

GM

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U.S.NEWS & WORLD REPORT

Vol. 92 No. 8 March 1, 1982

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THERE'S A TOWN IN CANADA WHERE HOUSEHOLD PESTS STAND TEN FEET TALL AND WEIGH HALF A TON.

Every fall, they descend on Churchill, Manitoba. Curious, bold, and very hungry. *Polar Bear Alert*—this year's third National Geographic Special—shows you one of the world's most dangerous carnivores out for a night on the town. See how the townspeople play the cautious host.

Produced by the National Geographic Society and WQED/Pittsburgh, the award-winning National Geographic Specials continue to be one of Public Television's most popular series. And for the seventh consecutive year, they're underwritten by Gulf Oil Corporation.

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Watch *Polar Bear Alert* March 10th at 8 p.m. (E.S.T.) on PBS. Check your local listings.

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Letters to the Editor

The Screw Tightens

The Basset cartoon on the cover of your February 15 issue ["The Screw Tightens"] shows the anguished faces of those the book press is squeezing out of the budget: The disabled vet, the farmer, the aged, the student, the minority mother and child, women, etc. Why not show the face of the man who turns the screw? Is it because most Americans can recognize him from his hands? If all sectors of our society were being asked to sacrifice more or less equally, perhaps the visage of Ronald Reagan would not have to hide behind your logo!

WICK HUMBLE
Chico, Calif.

If our illustrious Democratic leaders had concerned themselves with deficits and overspending about 20 years ago, there would be no unbalanced federal budget today. It is quite convenient to blame everything from a staggering economy to bad weather on President Reagan, but the fact is our government started running in the red long before January of 1981. The Reagan administration has only started to clear up the mess that was left him by such financial wizards as Jimmy Carter.

PATRICK O'CONNOR KEEL
Austin, Tex.

The screw has been too loose for too long! It also has been misapplied. If we cannot correct this now, adjusting our standards of living accordingly, we are indeed down the drain.

HARRY B. JOHNSTON
Crandall, Ga.

Yes, the screw is tightening. As a social worker, I can see it every day: Reduced food and medical assistance for the poor and aged, loss of job-training programs, cuts in day care, legal aid, mass transit, nutrition, education and rehabilitation services. People are losing hope for a better life and are becoming restless and angered.

Any U.S. President who aspires to make America more secure by spending 258 billion dollars for the largest peacetime military buildup in history obviously ought to have his own head checked for "loose screws."

PAUL SVEDERSKY
Cleveland Heights, Ohio

Whether intended or not, a big problem of the U.S. government is graphically displayed on your cover. Only the government would use a left-handed screw on a press (obviously based on precise specifications), rather than use a standard right-handed screw available off the shelf.

TONY E. EGGLESTON
Marietta, Ohio

Florida's Crime

My boundless appreciation for the frankness of "Crime Casts Cloud Over Nation's Playground" [February 1]. Being a citizen of Miami, I am acutely aware of the real crime situation here. Therefore, I was delighted that you clearly put the blame for the crime problem where it rightly belongs. Your article is the kind of journalism that leads to positive reform. You have renewed my faith in the press and proved that *U.S.News* cares more about printing the truth than printing articles that will sell magazines.

JOSE VALDES
Miami

As a Miami resident studying in Philadelphia, I read with great interest your depiction of Miami as a battlefield. I have visited most of our nation's big cities and seen evidence of their tragic violence, with its accompanying fear and frustration. The only thing which sets Miami apart is that it is a small city with big-city problems. In the past few years, Miami has had things thrust upon it which no one could have foreseen; growing pains are the natural result. Our institutions are adjusting and rising to the challenge, as are the many newly formed citizens' groups. Miami may be down, but it's certainly not out.

DOUGLAS R. KORN
Philadelphia

Fed's Tight-Money Policy

The clever cartoon heading your timely article, "Anguished Pleas to Fed: 'Ease Up!' " [February 8], is a masterful illustration of why the economy is in such a dire mess. It would be hilarious were it not so painfully true. The tourniquet of usurious interest rates that the Fed has clamped around the neck of the economy is choking off the vital flow of its life-support system.

The standard excuse for this action is control of the money supply. But what good is the supply if it fails to circulate? Is the economy doomed to suffocation? It appears the time is overdue for applying the choke collar to Volcker and his freewheeling syndicate of Wall Street bankers known as the Federal Reserve Board. States have laws against usurious interest rates; why not the U.S. government?

ARTHUR B. ANDERSON
Leucadia, Calif.

Tax Breaks for Schools

As I read "Tax Breaks for 'All-White Schools'?" [Pro and Con, February 8], I was amazed by one statement by Senator Mathias: "The First Amendment has an absolute guarantee of religious belief, but it does not prohibit government regulation of religious practice." It is impossible, even in the strictest totalitarian state, to control personal belief. The constitutional phrase, "free exercise thereof," must certainly refer to the outworking of one's religious beliefs, not what goes on in one's mind.

The issue is clearly one of religious liberty. Just as tariffs serve to control imports, the license to tax religious institutions is the power to control them, and this is a clear violation of the First Amendment.

GARY E. UMBENHAUR
Suffolk, Va.

Schools that discriminate because of race, sex or religion should not be allowed tax exemptions. The people they keep out also pay taxes. I would consider myself a fool paying taxes for a school neither I nor my children will be able to attend. This is another attempt by the President and the aristocrats whose kids attend private schools to weaken public education and gradually turn back the clock.

JERRY EVANS
Pelahatchie, Miss.

Correction

Your February 8 report on the New Federalism included a chart of states which increased taxes during 1981. It incorrectly listed Maine as increasing its motor-fuel tax last year. Maine's motor-fuel tax of 9 cents per gallon has been unchanged since 1971. We have not found it necessary to increase any taxes to make up for budget reductions from Washington. Instead, we have reduced our funding for lower-priority programs and sought more-efficient ways to do business.

JOSEPH E. BRENNAN, *Governor*
Augusta, Me.

Letters for publication should be sent to Letters Editor, U.S.News & World Report, 2300 N Street, N.W., Washington, D.C. 20037, and must include a daytime phone number. All letters subject to editing.

A Memo to Our Readers

LOUIS HOOD

Philadelphia Orchestra on the air.

Future generations are going to be able to hear the music now being performed in America's smaller cities and towns because of a gift to the Library of Congress from an affiliate of *U.S. News & World Report.*

More than 160 hours of tapes from the "America in Concert" radio series were turned over to the library by Parkway Communications Corp. of Bethesda, Md., at a special presentation ceremony in February.

For three years the concert series has provided chamber, choral and symphonic music as currently being performed in communities ranging from Portland, Me., to Sacramento, Calif., and from Rockford, Ill., to Fort Lauderdale, Fla.

"The tapes provide the only central record for music historians to find out what was going on in these areas in mid-20th-century America," says Neil Currie, Parkway president. The gift was made possible, in part, by a grant from the Atlantic Richfield Foundation as part of the library's project to document American musical life.

The "America in Concert" program is only one of a wide range of offerings from Parkway, the nation's largest producer and distributor of fine-arts radio programing. Parkway's 300 subscribing stations broadcast such programs as concerts by the Philadelphia Orchestra and the Baltimore Symphony, "BBC Promenade Concerts," "The Steinway Hour," "European Perspective," "BBC World Theatre," Paul Temple detective stories and recorded live performances by 50 other orchestras.

USN&WR became associated with Parkway last August as an opportunity to extend its leadership beyond that of print. Essentially, we are an information company, and broadcasting is another way of distributing information.

In the near future we intend to air a service called U.S.Newsradio, which will stress newsfeature programing, much of it coming from reporting and coverage by our worldwide staff.

John H Sweet

Chairman

U.S.NEWS & WORLD REPORT

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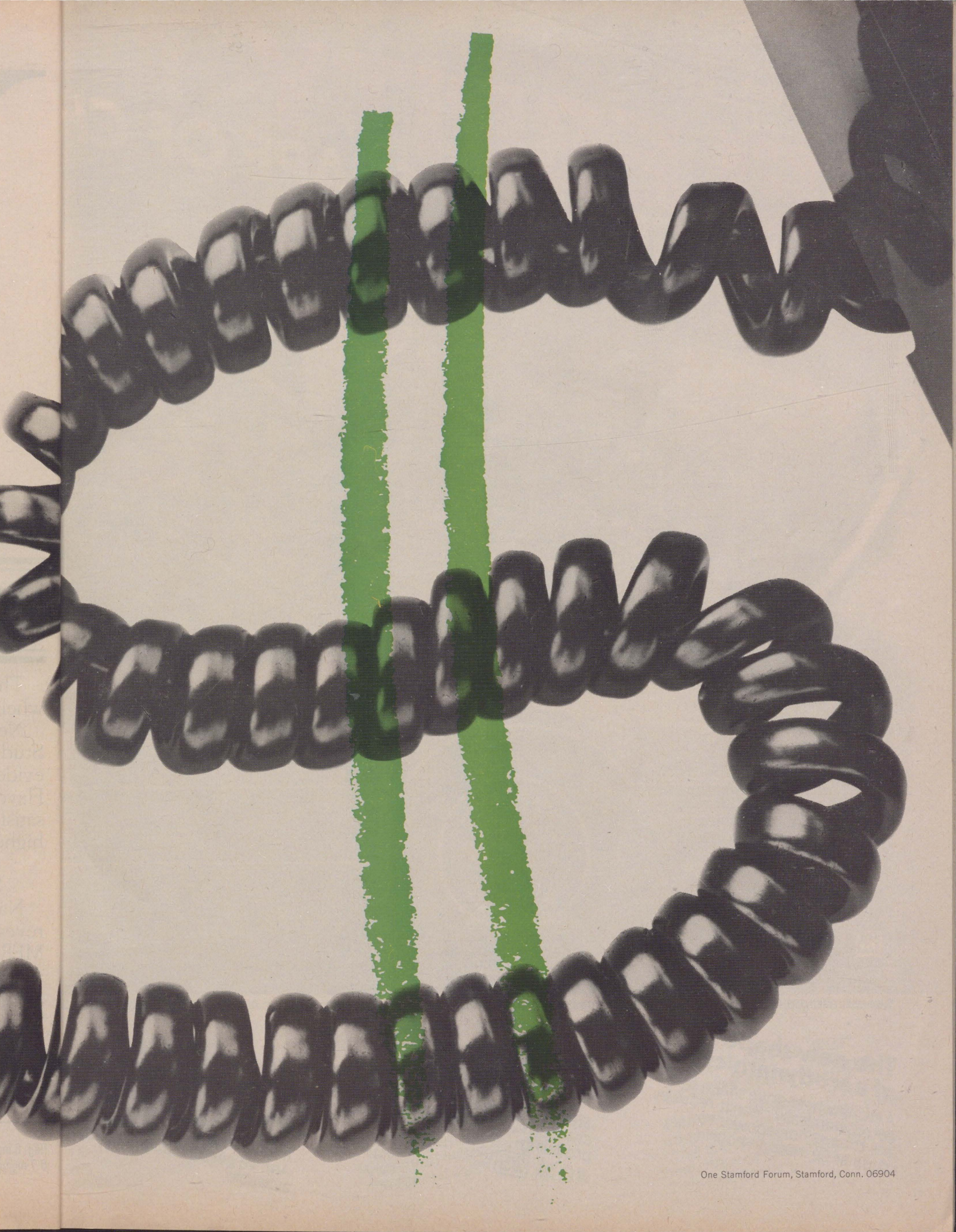

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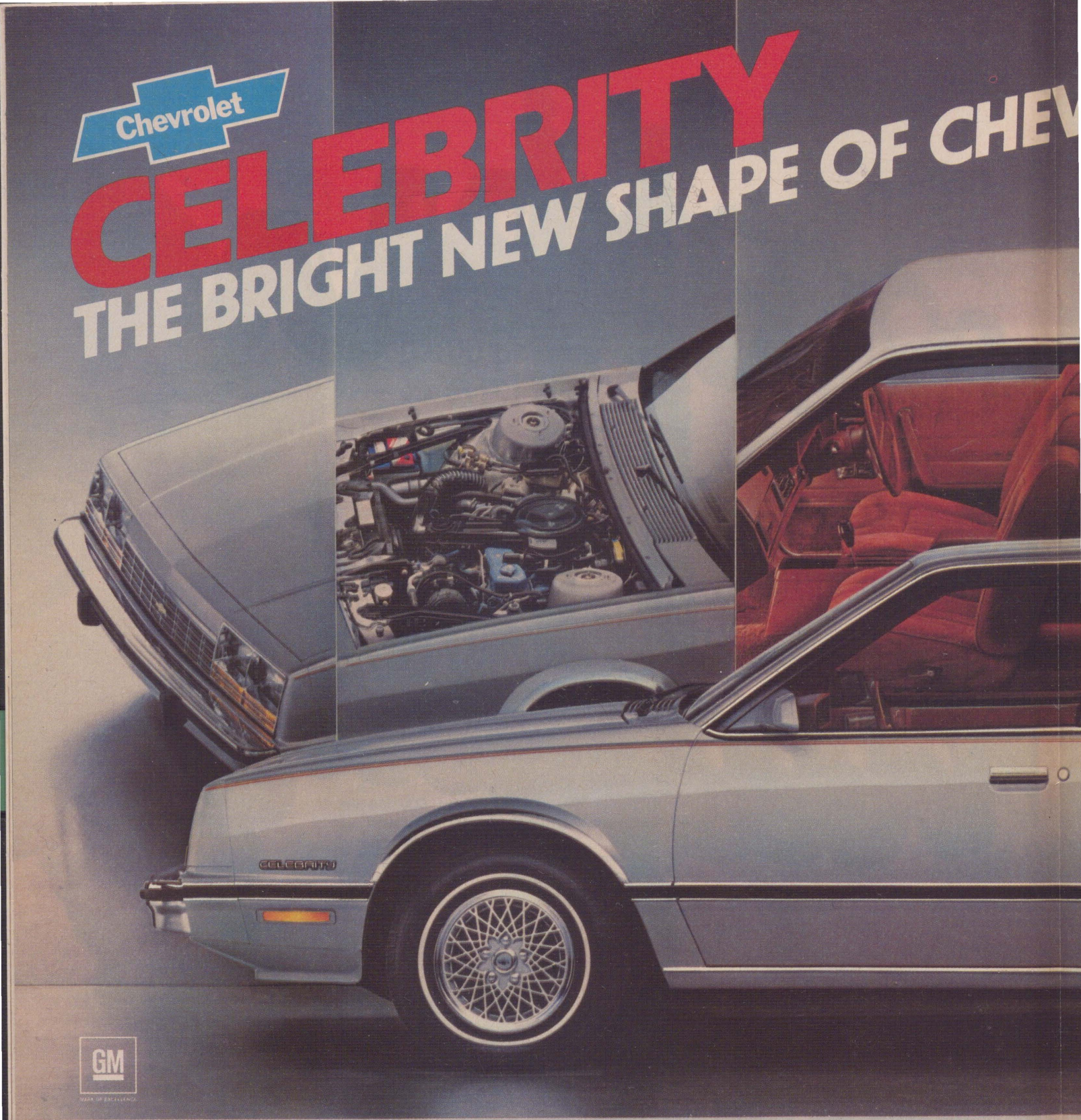

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A LOOK AHEAD FROM THE NATION'S CAPITAL

Newsgram®

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Squabbles are increasing within Reagan's cabinet. They will force him to depend more on his closest White House aides to get his programs in place.

Haig-Weinberger disputes over the Mideast, Poland, Russia, the Atlantic Alliance are only the most visible signs of disarray. Others:

Budget Director Stockman lacks credibility in Congress.
Health Secretary Schweiker voices private concerns over New Federalism.
Housing Secretary Pierce protests private-school tax-exemption policy.
Labor Secretary Donovan finds himself stymied by a corruption probe.
Energy Secretary Edwards yearns to return to South Carolina politics.
Envoy Kirkpatrick airs frustrations with her job at the U.N.

All in all, the collegial, efficient cabinet government envisioned by the President a year ago isn't working the way he expected. Nothing new, really.

Most other recent Chief Executives had similar troubles.

How, specifically, will Reagan cope? You can expect these developments:

Fewer cabinet meetings. Reagan held 35 in 1981, three so far this year.

Stronger in-house advisory groups. Counselor Meese is expanding one on policy oversight. Another aide, Deaver, has started one on political strategy.

More regular meetings with close aides. Reagan has already begun luncheon sessions every Monday to cover hot issues.

Question: Can the quick fixes overcome confusion about foreign policy and lack of enthusiasm within the White House for Reagan's 1983 budget? Yes, if--

Top aides Meese, Deaver and Chief of Staff Baker can fend off attacks from hard-liners, who contend the ideologically impure are taking over. And if--

National Security Adviser Clark can knock heads on diplomacy, defense matters. He wins high marks for management. But substance? Jury's still out.

Meantime, Reagan continues to rely heavily on individual cabinet members:

Treasury Secretary Regan, top rated among White House insiders. It's Regan, rather than Stockman, who carries the ball on the budget.

Transportation Secretary Lewis, valued for hard work, campaign know-how.

Defense Secretary Weinberger, a close friend of the President's and a formidable military advocate despite his sometimes embarrassing saber rattling.

Secretary of State Haig, who remains the key foreign-policy adviser even though he still has problems dealing with others in the administration.

Whatever their internal differences, cabinet members will pull together

(over)

for congressional races over the next few months. White House strategists will require most cabinet members to spend 15 days on the hustings.

Only exceptions are Haig, Weinberger and Attorney General Smith. Reason: Traditionally, occupants of their jobs, once in office, don't campaign.

GOP campaign leaders are handing their operatives new technology for use in congressional districts--portable video display terminals.

These hand-held machines, plugged into the Republican National Committee's master computer, will draw such vital information as . . .

Voting records of incumbent Democrats, new district boundaries, wire-service stories affecting campaigns, and demographic makeup of districts.

Democrats are far behind in such advanced gear. But the AFL-CIO will come to the aid of the party with computers, polls, direct mail, TV--the works.

Yet things are so volatile that both sides are playing down their chances.

Republicans say they'll be lucky to hold losses of House seats to 36. Democrats predict they'll pick up 15 to 20. Right now their edge is 243-192.

Only a month ago the Democrats were counting on only a 5-to-15-seat gain.

The lovey-dovey mood generated by the pact between auto workers and Ford in February will have little effect on other big labor negotiations this year.

Why? Few industries with contracts pending have the deep woes that led labor to give wage concessions to the auto, trucking and airline industries.

There will be confrontation as usual in these bargaining sessions:

United Rubber Workers vs. Goodyear, B.F. Goodrich, Firestone in April.

Electrical workers vs. General Electric, Westinghouse in June and July.

Construction workers vs. the housing industry in more than 170 contracts that come up throughout the year and affect some 500,000 laborers. Despite recessionary problems in housing, early contracts have turned up big pay hikes.

Don't forget NFL football players. They want a hunk of the profits.

Over all, however, labor may moderate its demands somewhat because inflation is trending downward. Look at the last decade:

Typically, raises gained in major labor contracts were higher in years following upswings in inflation. And lower in years following declines.

In 1981, prices rose 10.4 percent, down from a 13.5 percent jump in 1980.

No doubt about it: Getting into a good college is tougher than ever.

For one thing, more state universities are tightening entrance requirements. Examples: California, North Carolina, Michigan, Florida State.

Some schools are reducing freshman enrollment: Maryland, Tennessee, Texas.

Also, several colleges are dropping policies of admitting worthy students regardless of ability to pay and worrying later about how to finance them.

Wesleyan, Brown have already done so. Dartmouth is considering it.

But there are countertrends: Enrollment will tail off as 18-24 age group shrinks. Open admissions will rise at junior colleges, small private schools.

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U.S.NEWS & WORLD REPORT

Lasting Scars Of Recession

As the slump deepens and interest rates head higher, people are being forced to alter lifestyles and businesses to shift course. It's a legacy that won't fade soon.

The whiplash of the second recession in two years promises to bring broad and lasting change to the nation.

Bankruptcies are mounting. Layoffs are rising. Farmers are hurting. Investors are anxious. Many newly-marrieds are giving up on the traditional single-family detached house. A private-college education is becoming a luxury. Young people are growing increasingly pessimistic.

All of these trends took on new momentum from a burst of bad economic news in mid-February:

- General Motors announced the closing of two California plants and the elimination of a work shift in Pontiac, Mich., only two weeks after shutting its Euclid, Ohio, plant. More than 5,000 jobs will be lost in California.
- New York's Chase Manhattan Bank led major banks in raising the prime rate they charge their best customers by half a point to 17 percent. The prime is expected to go higher.
- The Federal Reserve Board reported that industrial production, which has fallen for six straight months, plunged 3 percent more in January.
- The crippled housing industry suffered still another blow as starts slipped 0.6 percent last month to a level 44 percent below a year earlier, the Commerce Department said.
- Dun & Bradstreet reported that business failures soared to 529 in the week ended February 11, the highest number in 40 years.

The worsening situation prompted an unannounced meeting February 15 between President Reagan and Paul Volcker, chairman of the Federal Reserve Board, to resolve their differences over economic policy.

Three days later, at a press conference, Reagan supported the Fed's tight-money policy, calling it "fully consistent" with the administration's forecasts for economic improvement.

And the President attempted further to enhance relations with the board by saying: "The administration and the Federal Reserve can help bring interest rates down faster by working together than by working at cross-purposes."

The President also said the recession will "bottom out" sometime this year, a retreat from an earlier prediction that recovery will start by early summer.

"Crawling along." Professional forecasters confirmed the gloom. "We are crawling along bottom," said Michael Evans of Evans Economics in Washington, D.C.

Now in its seventh month, the recession is unique. It is the first time since 1920 that a second recession began so soon—12 months—after one ended. Interest rates, which usually fall during periods of economic decline, continue to bounce around at high levels.

This sustained punishment is having a profound effect on the economy and the way people live.

In a dramatic change, big unions are giving up wage-benefit increases for job security. That was at the heart of the agreement reached by Ford Motor Company and the United Auto Workers in mid-February.

As the slump erodes profits and jobs, the prospects now are that heavy industry, once the economy's backbone, never will regain its former status as the nation's major employer.

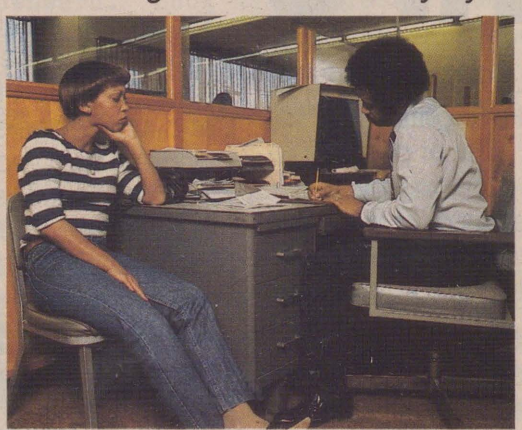
Ultimately, experts believe, the primary industries will be rebuilt along smaller, leaner and more-automated lines. "I have serious doubts that autos, in particular, and heavy industry, in general, will return to their old employment levels,"says J. Fred Bateman, chairman of the economics department at Indiana University.

The sagging economy also is pushing

Who's Suffering the Most? *Among those hit hardest by layoffs, rising costs—*

DAVID NANCE

Construction Workers
Worst home-building slump since World War II has idled 19 percent of construction-crew members, cost jobs of loggers, real-estate agents.



MAGGIE STEBER—VISIONS

Blacks
One out of 6 workers—some 1.9 million—are jobless, up markedly from a year ago. More than one third are adult women. Unemployment is about twice that of whites.

JEFFREY JAY FOXX—WOODFIN CAMP

Teenagers
Young people face especially difficult times. Of all teenagers in the labor force, 22 percent are out of work. Among blacks, it's 41 percent.

weaker companies into mergers with stronger ones. In the troubled thrift industry, mergers among savings and loan associations doubled last year over 1980 and are expected to rise higher this year. Some authorities look for many hundreds to disappear.

Sky-high interest rates are forcing many corporations to change the way they raise money for mergers or other investments. More and more companies are giving up on the bond market, preferring to use cash on hand, borrow short term or float new stock issues.

Jobs, and job seekers, are continuing to desert the frost belt for the sun belt. The Southwest is being inundated by the unemployed and their families in a migration that is reminiscent of the cross-country treks of the Great Depression.

"We have really seen the effects of the recession," says Virginia Cuvillier, director of the Travelers Aid Society of Houston. Her case load is 50 percent higher than it was a year ago.

The migration of jobs and job seekers to the South is maiming sections of the industrial North. "States such as Michigan," says Otto Eckstein of Data Resources in Lexington, Mass., "are becoming economic backwaters, with little possibility for recovery for a long time."

Entire small communities fear for their futures. Tiny Chester, W. Va., population 3,300, is still reeling from the announcement by the Anchor Hocking Corporation, a glassware manufacturer and the town's largest employer, that it will close or sell its plant within three months. "It's going to be rough," says William Allison, the city's clerk-treasurer.

The farm economy is suffering, too. The U.S. Department of Agriculture estimates that net farm income this year may fall below Depression levels.

John Chrystal, president of the Iowa Savings Bank in Coon Rapids, Iowa, predicts that more farmers will quit than at any time since the 1950s. "The farmer is in a mess, and so are the people who lend to him," he declares.

LOCHER IN THE *CHICAGO TRIBUNE*

The double-dip recession is helping to change personal attitudes, too. A survey by Yankelovich, Skelly & White of New York disclosed strong pessimism among youths. "Young people today feel they can't take it for granted that their life is going to be better than their parents'," says Ann Clurman, a vice president of the polling firm.

No longer do the young assume they will be able to afford homeownership. So, they are spending their money "on something else, like TV equipment or a boat," says James Nistler, a Medford, Oreg., builder.

A Rockville, Md., builder, Porten Sullivan Corporation, is catering to the new lifestyles. The company is marketing 800 housing units designed for "mingles," or unrelated singles. Each unit has separate bedrooms and baths with a common living area.

Troubled families. The recession is causing families to double up, with children moving in with parents and vice versa. Elaine Leeder, a psychotherapist in Upstate New York, says such close living, coupled with earnings losses, is resulting in increased conflict. "When I see a woman coming in with a black eye because her husband cannot get a job," says Leeder, "it is a tragic time."

Reduced earnings prospects will extend the trend toward smaller families, predicts Geoffrey Greene, a demographer for Wharton Economics in Philadelphia.

Hard times make cost even more important in educational decisions. Sandra Haas and Lynn Chase of Rochester, Mich., wanted to go to private colleges but chose Michigan State University because "it was cheaper."

As the recession drags on, millions of Americans are lowering their expectations. Dimming—at least for now—says Arthur Anderson, chairman of the sociology department at Fairfield University in Connecticut, "is the American dream of upward social mobility." □

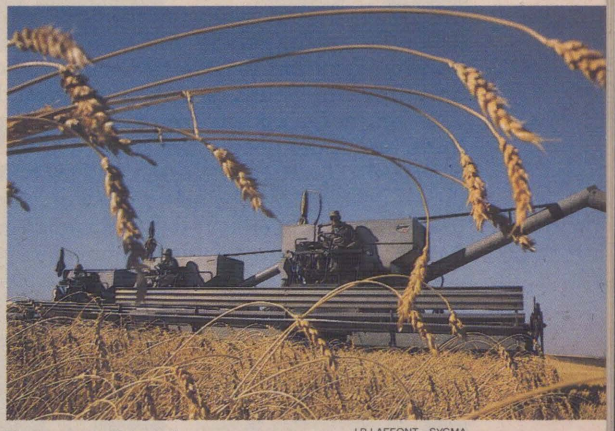
By MONROE W. KARMIN with the magazine's domestic bureaus

JANET FRIES

Blue-Collar Laborers
Latest layoffs have left 17 percent of warehouse workers, garbage collectors, other laborers out of jobs, compared with 15 percent a year ago.

J.P. LAFFONT—SYGMA

Auto Workers
From executives to dealers, thousands have lost out. Production jobs are down 76,000 in a year. Hit, too, are those in tire, glass, steel industries.



J.P. LAFFONT—SYGMA

Farmers, Suppliers
Sales, output, jobs for makers of farm equipment have slumped. Net farm income, held down by low prices, high costs, is likely to slide.

Interview With Former Vice President Walter F. Mondale

A Leading Democrat's Formula for Recovery

Revamp the tax cuts, trim defense increases, don't overburden the states—those are one critic's alternatives to Reagan program.

DARRYL HEIKES—*USN&WR*

Q. Mr. Mondale, the President is telling critics of his budget and economic policies to "put up or shut up." What is your alternative to administration programs?

A. First, I think the economic policies that are being pursued are neither conservative nor moderate, but radical.

A collision between monetary and fiscal policy has not resulted in growth, but has caused the highest real-interest rates we've ever had. There has been a choking of real growth. I see no credible hope without decisively reducing the deficit and pressing the Federal Reserve Board to be more accommodating on money supply.

I'm convinced this administration is relentlessly seeking a radical objective by largely limiting the federal function to three categories: Defense, reduced entitlements and payments on the national debt.

Q. Then what is your program?

A. First, to get the deficit down, I think we ought to remake the tax cut. I'd keep the business cuts in place, but I'd propose more-modest income-tax cuts at the marginal and moderate-income levels.

Next, I'd make the July 1 tax cut this year retroactive to January 1 because we're clearly in a deep recession. Then I would repeal or defer the scheduled 1983 reductions. I'd also get rid of this tax-code provision that permits companies to trade off their losses. Even a Republican economist calls it "food stamps for the rich."

On the budget, I'd look at all of it to get the deficit down, including defense. I believe we need a stronger defense, but not with an 18 percent real buildup in expenditures. I've got grave doubts about the B-1 bomber and refitting World War II battleships, for example.

I would press the Federal Reserve for a more responsible policy. If we don't get it, we are in real trouble.

Q. Will the Democrats in Congress press their alternatives, or will they just sit back and hope that Reagan fails?

A. Well, I'm no longer in Congress, and I can't play the role I once played there. But I do believe Democrats must do what they can to help this country. You'd be surprised how little Americans care about political debating points.

As long as Democrats are seen as dealing responsibly with these issues, the people will come with us. When we're not seen in that light, their trust in us will be understandably reduced. Meanwhile, the administration must be cooperative to reduce deficits, to cut defense and alter the tax formula. In fact, it will be impossible without the President's support.

Q. What about Reagan's New Federalism—transferring certain federal programs to the states?

A. I believe the debate over federalism is warranted. I have no objection to that at all. But I don't think we can strengthen our country if we say the national government is no longer a central forum for discussion of our problems.

Talk to any governor, except from energy-producing states. They are all being torn apart by high taxes at a time when they have to cut services and raise taxes even higher.

Consider if Aid to Families With Dependent Children—an unpopular but, I think, essential program—becomes totally a state function. If the states raise taxes to pay for it, they will become less attractive for business. If they are generous, the recipients will tend to go to those states and stay there. So you'll have the tax base going in one way and the benefits in another.

Q. What is your assessment of Reagan's foreign policy?

A. We're seeing a foreign policy that is badly coordinated. You can't manage without an effective and sophisticated National Security Council, and we do not have one.

The administration has resorted to very loose talk about nuclear weaponry—such things as winning limited nuclear wars and firing warning shots—that has just driven our European allies up the wall. They have abandoned efforts of the Carter and Ford administrations to put a crimp on nuclear proliferation. I think that is a serious mistake.

I also believe the administration is guilty of converting human rights from a principle to a tactic. They are right in criticizing the abuse of liberties in Poland. But credibility is diminished by our cozying up to the South Africans, the Argentines and the Chileans.

Q. What would you do about the situation in Poland?

A. I think it is time to put a squeeze on credits. We should consider putting them in default. The Russians are so desperate that they are profligately selling gold. They have had a drastic drop in farm production, and their economy is in a mess. We should strengthen NATO.

Meanwhile, the tough adjectives from the administration are magnificent, but the Russians don't even bother to print them. I think they are looking at the bottom line: Are they going to pay a price for this or not?

Q. And in El Salvador?

A. I would be much tougher on the Duarte regime there and condition our aid on their bringing in more civilians, reasserting control over the military and removing the people responsible for oppression.

Q. If you do run for President in 1984, will you be hurt by your association with the Carter administration?

A. I'm not going to turn my back on those years. President Carter permitted me to be involved more deeply than any Vice President in American history. I'm not going to run away from that relationship with him.

I think history is going to deal more kindly with his administration as time goes on. We made some mistakes, as all administrations do. We were pummeled by some tough circumstances. But if I run, I'm going to talk about the future and the issues of the 1980s.

Q. What about those critics who say you are too liberal?

A. I don't think labels mean much any more. I consider myself a moderate, progressive and pragmatic Democrat. I've had a lot of valuable experience—4 years as attorney general in Minnesota, 12 years in the Senate, 4 years as Vice President. I know this country, and I've had a very rich background in foreign policy. I've got some years left in me, and I think I've got something to contribute. □

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Democrats Line Up Early To Oppose Reagan in '84

Confident that Republicans are vulnerable, their rivals are wasting no time elbowing for position to make an early run at the White House.

While Republican Ronald Reagan struggles with problems of the Presidency, nearly a dozen Democrats already are jockeying for the chance to take his job away in 1984.

Behind the unusually early start: Democratic strategists are convinced that a slumping economy and troubles abroad will make Reagan a weakened incumbent if he seeks re-election. If the President steps aside in two years, when he will be 73, opponents are confident that any other Republican nominee will present an even easier target.

"In other words," explains a top Democrat, "our nomination looks like it will be worth having in 1984."

The busiest Democratic contender, and considered by some to be the front-runner, is former Vice President Walter F. Mondale, 54, who is steadily expanding a campaign staff and spends much of his time touring the country to maintain political contacts.

Senator Edward M. Kennedy of Massachusetts, 50, loser to Jimmy Carter in a bitter 1980 primary struggle, remains a prominent figure in the party's liberal wing and is expected to run for the White House again, once he wins re-election to his Senate seat this fall.

Two other potential candidates, Senator Alan Cranston, 67, of California and Florida's former Governor Reubin Askew, 53, are traveling around the country testing their appeal.

Just behind is another category of Democrats who are stepping up their speechmaking schedules, courting media attention and keeping their options open. Among them: Senators John Glenn, 60, of Ohio and Gary Hart, 44, of Colorado, along with Governor Jay Rockefeller, 44, of West Virginia.

There's even a dark-horse group this early—Senator Ernest Hollings of South Carolina, 60, Governor John Y. Brown, 48, of Kentucky and Representatives Richard Gephardt, 41, of Missouri and James Jones, 42, of Oklahoma.

Mondale clearly is attempting to position himself as the man to beat. While not disassociating himself from the rejected Carter administration, the former Vice President is seeking to establish his own political identity.

As a base of operations, Mondale has his $175,000-a-year post with the Winston & Strawn law firm in Washington. But he is more candidate than lawyer, spending nearly all his time on politics.

With a staff of 10 already working full time for him, Mondale is paying for his extensive travel with funds collected by his own political-action committee, called the Committee for the Future of America. Aides say that the PAC, organized primarily to give money to 1982 Democratic candidates in return for valuable political IOU's, expects to raise 2 million dollars by autumn. In addition, Mondale is helping to collect funds for state and local party groups.

New moderate. Mondale also is seeking advice from a broad spectrum of economic and foreign-policy experts to shape alternatives to Reagan programs. Once known as one of the Senate's most liberal members, he is staking out a more moderate image.

Concedes Paul Tipps, Ohio Democratic chairman, who is pushing Senator Glenn: "Mondale is easily the leader now. He's well organized and has professionals around him who are second to none."

During a mid-February swing through Ohio, Michigan, Wisconsin and Iowa, Mondale demonstrated how to run for President without admitting it.

Repeatedly on the trip, he accused Reagan of "savaging" farmers and factory workers in the midlands with the misery of high interest rates and unemployment. He called the Reagan budget the most misleading ever presented and characterized the President's New Federalism proposals as a "sideshow" designed to divert attention from economic problems.

Mixing in his own prescription for the economy with criticism of Reagan's plans, Mondale carefully steered clear of any personal attacks on the President. There was scant mention of former President Carter, who is hardly a hero among Democrats these days.

Mondale's reception was warm, but the grim subject of the economy did not produce many applause lines. Asked if he is running, Mondale habitually replied: "I'm thinking about it," but his broad smile gave him away.

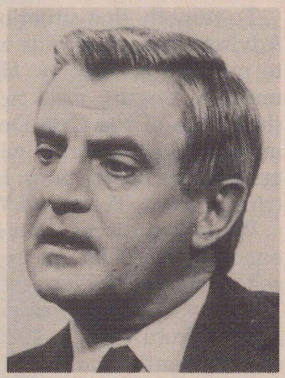
Friends concede that one motive behind Mondale's high-visibility campaigning is to erase any doubts that he has the will to finish the marathon that a candidate for President must endure. Back in 1974, Mondale explained, in dropping out of the race for the 1976 nomination, that he was not willing to undergo the ordeal. His view of campaigning now: "I love it!"

Mondale's early zeal apparently is not scaring off challengers, including Kennedy, who can afford to wait in the wings longer than any other candidate because of his formidable name. The latest Gallup Poll shows Kennedy a favorite over Mondale.

While concentrating mainly on winning impressively this November, Kennedy also is traveling extensively to raise money to retire his 1980 campaign debt and to gather funds to help other Democrats. In the coming month, for example, the senator is

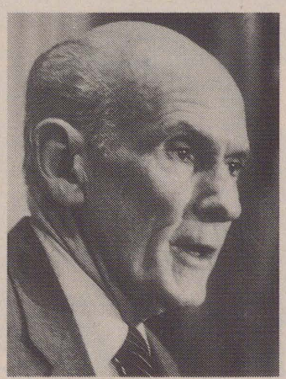
Leading the Pack

Edward M. Kennedy

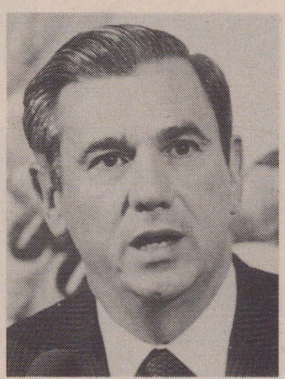


Walter F. Mondale

Testing the Water



Alan Cranston



Reubin Askew

scheduled for stops in Chicago, Miami, Cleveland, New York and California.

Main vehicle for the Kennedy effort is his political-action committee, the Fund for a Democratic Majority. The group has raised more than $850,000 and already has contributed $1,000 to each of 26 party candidates, mostly liberal targets of conservative groups.

No retreat. After the Reagan landslide of 1980, some predicted Kennedy would adjust his liberal views to fit the times. But he was one of only two senators—Michigan's Carl Levin was the other—to win a 100 percent rating on votes last year in Congress by the liberal Americans for Democratic Action.

Vows the senator: "I will never retreat on my fundamental commitment to old values of fairness, decency, equity and compassion."

Kennedy warns that the Democrats should not underestimate Reagan as an opponent in 1984. For his part, he says he learned a lot about the country and about himself from his primary loss to Carter in 1980. Translation to many Kennedy followers: He's running.

Cranston, the Senate's minority whip, surprised even some of his friends when he announced on January 20 that he was considering the race. Although he won re-election by 1.6 million votes two years ago and outpolled Reagan in the President's home state, Cranston is little known outside California.

To remedy that situation, a Cranston Advisory Committee is raising money to put him on display. He has already made a lengthy visit to New Hampshire, site of the first Democratic primary in 1984, and met with party leaders from six other states. He is planning trips to Iowa, Texas and Wyoming.

While Cranston's aides insist they are encouraged so far, party professionals regard him as the longest of shots.

Askew, a progressive governor of Florida from 1971 to 1979, takes off 14 days a month from his law practice to go on the road to test his candidacy. An exploratory committee in Miami has raised $50,000 for his travel expenses.

During the next two months, Askew will talk to Democrats in Nebraska, Oklahoma, Arkansas and Tennessee, followed by excursions to states in New England and the West. He was in Iowa, the first caucus state in the 1984 sweepstakes, on the same February day that Mondale was campaigning there.

Aides say Askew, who also served as U.S. trade representative during the Carter administration, will make a decision early next year. Some analysts predict that, after the Georgian Carter, the party will have doubts about turning soon to another former Southern governor as its presidential nominee.

Glenn, while biding his time about committing himself to a race for the White House, is adding to his speaking schedule and heating up his normally restrained rhetoric against the Reagan administration.

A proven vote getter in a pivotal state, Glenn got 69 percent of the ballots in Ohio in 1980 to easily win re-election while Reagan was taking the state at the top of the ticket.

Like Ike? The former astronaut, considered more conservative than the other prominent Democrats, is rated an expert on national security and defense matters. But aides admit that he needs more expertise on economics, likely to be the hottest issue in 1984.

The reaction of one prominent Democrat, not a Glenn backer, who met him for the first time: "He came across like an Eisenhower—a nice, solid whole person."

Hart, while officially denying presidential intentions, is making it a point to get around the country to raise money for Democratic friends, urge revitalization of the party and promote new ideas.

UPI

The most active Democrat, former Vice President Mondale, campaigns forcefully in Iowa.

Recently, Hart published an economic strategy for the next decade in which he called for replacing the income tax with a progressive consumption tax.

Hart, who managed Senator George McGovern's losing presidential campaign in 1972, gained attention outside Colorado when he survived a tough 1980 re-election challenge while several other key Democratic senators were losing. Shy and soft-spoken, Hart is viewed by some analysts as a more likely vice-presidential prospect.

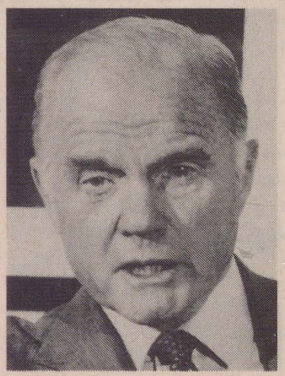
Some observers in West Virginia suspect Rockefeller has cooled off on his presidential ambitions after spending almost 12 million dollars of his own money to win a second term in 1980.

Yet Rockefeller is active on the party's speaking circuit and has an attractive political companion in his wife Sharon, daughter of Republican Senator Charles Percy of Illinois.

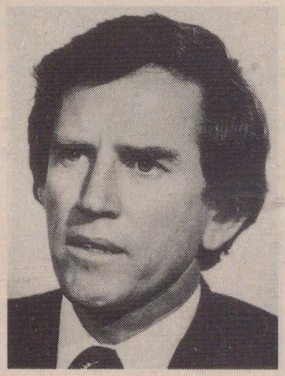
Dark horses such as South Carolina's Hollings, Kentucky's Brown, Gephardt of Missouri and Jones of Oklahoma are relegated to the honorable-mention category at this point. Still, their names are being bandied about in party gatherings. Some Democrats insist that the name of the eventual nominee has not surfaced yet, that somebody could come out of nowhere much as Carter did six years ago.

While there is nothing close to a consensus right now on who their candidate for President should be in 1984, party leaders agree on one thing: If things keep going as they are, whoever wins the nomination stands an excellent chance of leading the Democrats back into the White House. □

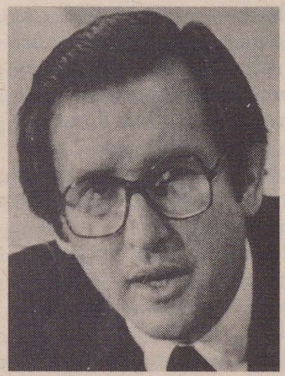
Still Waiting in the Wings



John Glenn



Gary Hart



Jay Rockefeller

By JOHN W. MASHEK with THOMAS J. FOLEY

The Uneven Burden Of Today's Recession

Why is business booming in one city and lagging in another? A close look at two communities reveals some not-so-obvious answers.

The deep recession that has thrown so much of America off stride is spreading an unequal load of suffering across the land.

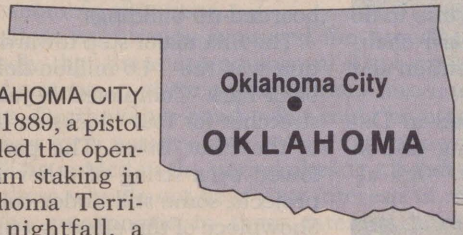
In some cities, the slump is hitting with the impact of another depression. In others, business has seldom been better, and good jobs go begging.

"Regional differences are there in every recession," says Glynnis A. Trainer, an economist with New York's Citibank. "There are a host of factors that determine how a city or area weathers a downturn."

To see what makes one city a winner and another a loser, *U.S.News & World Report* visited two communities at opposite ends of the economic spectrum. Oklahoma City has posted one of the lowest unemployment rates in the nation for several months. In contrast, Flint, Mich., consistently has had one of the highest jobless rates.

Following are the reasons behind their performances—factors that go beyond the obvious links to a booming energy industry or ailing plants in the automobile industry.

Hello Boom, Goodbye Bust



OKLAHOMA CITY

Back in 1889, a pistol shot signaled the opening of claim staking in the Oklahoma Territory. By nightfall, a tent-cluttered city of some 10,000 had sprung up here along the banks of the North Canadian River.

The pioneer spirit unleashed that day still flourishes. At a time when many communities are hit hard by recession, this city of 400,000 is booming. Its unemployment rate hovered near 3 percent through much of 1981, and more than 30,000 jobs were created.

"If you've got an idea, there's no reason you can't make it work here," boasts a newcomer to the oil business.

Oil and gas unquestionably are the base of the economy. The Anadarko Basin's deep gas wells are expected to account for 6,000 jobs by year-end.

But even local "oilies" say that the wave the city is riding comes from more than energy.

"There is more diversity here than one might think," notes J. W. McLean, chairman of Liberty National Bank & Trust. "It is a combination of agriculture, energy, retailing, government and industry."

For decades, city leaders have recognized the economic value of new industry and have courted it with such lures as generous tax breaks.

As long ago as 1941, the city gave the U.S. government more than 2,000 acres southeast of downtown for an Air Force base—but not just a training base. They lobbied for, and got, what has become one of the world's major logistical service centers. More than 22,000 civilians are employed at the 4.4-billion-dollar Tinker Air Force Base. It has a direct economic impact on the area of more than a half-billion dollars annually.

"We were an invention of the town," says Maj. Gen. Jay T. Edwards, commander of the base that oversees the sophisticated AWACS—airborne warning-and-control system—jet planes as well as the refurbishing and management of B-52 and B-1 bombers. "Those early people had the perception to realize that Air Force bases come and go, but that one with an industrial base stays."

A friendly attitude toward business was not enough, however. For years, the city was at the mercy of the peaks and valleys of agriculture, the vagaries of the weather and the boom-bust cycles of the energy industry.

By the early 1960s, downtown Oklahoma City was a bedraggled collection of warehouses and office buildings, many dating back to the turn of the century. Worried business leaders stepped forward and hired renowned architect I. M. Pei to develop a master plan to revitalize the central business district.

"We literally tore this town down and started all over again," says Ed Cook of the Chamber of Commerce.

More than 12 city blocks were bulldozed to make way for a civic-and-convention center and new office buildings that added more than 3 million square feet of space. Centerpiece of the project is Myriad Gardens, a four-block park. Two decades later, work is still going on.

Business leaders continue to play a key role. When federal funds recently were cut for glass-enclosed botanical gardens, industry executives raised more than 5 million dollars to complete the project.

Local officials see another factor playing a key role in the area's economic vitality: A highly motivated labor force. "There is a greater commitment to a fair day's work for a fair day's pay than anywhere I've seen," asserts Bryan Gibson, personnel director of

DOUG HOKE

Two decades after Oklahoma City leaders had a master plan drawn up to guide redevelopment of a decaying downtown, the construction is still going on.

the 3-year-old, futuristic General Motors plant.

"We just don't have feuding between labor and management here," adds Dan Hogan, a local publisher.

For all the city's success, however, it is not immune to ups and downs in the national economy. Layoffs late last year of about 2,600 workers at the GM plant bumped the area's unemployment rate up to 4.1 percent, though it fell to 3.3 percent in December. An additional 3,400 workers were furloughed by early February.

Layoffs are a new experience for many area workers. "Unemployment is one of the things that has never been a problem in Oklahoma," says Keith Campbell, president of the local United Auto Workers Union. "The local workers aren't taking it so well." Some, he reports, are quitting to hunt more-secure jobs in other industries.

Experts warn, too, that as the city's industrial base continues to grow the area will become even more vulnerable to business swings.

Still, Oklahoma City officials remain confident about the future. Says Mayor Patience Latting: "We've seen boom-bust cycles before, but with such a pronounced speeding of the local economy, it doesn't seem likely to us now."

JOHN C. HILLERY

Changes are under way, but General Motors continues to dominate Flint, Mich.

Always a Factory Town

FLINT, Mich.

This "company town" of 160,000, birthplace of General Motors, is no stranger to hard times. "Flint goes through downturns two or three times each decade," says Mayor James W. Rutherford. "We're used to struggling and surviving."

There is a surprising sense of calm, despite a jobless rate of 16.5 percent—one of the highest of any U.S. metropolitan area, according to latest figures.

Don't panic, say Flint leaders. Their soothing advice: The city is not dead. The auto industry, lifeblood of the area, always revives.

Beneath the outward calm, however, is a growing sense of unease. This downturn has been longer and deeper than most in the past. Some experts predict that the boom days of old may be gone forever.

It is nearly impossible in Flint to escape the influence of General Motors. Carriage maker W. C. Durant founded the company here in 1908. Today, there are 11 major GM manufacturing facilities in the metropolitan area. Three have their headquarters here: Buick, A. C. Spark Plug and GM Warehousing & Distribution.

Before hard times hit in the spring of 1980, GM employed as many as 83,000 residents of Flint and the surrounding areas, more than a third of the total labor force. Today, the GM payroll totals 64,790. About 13,750 hourly workers are on indefinite layoff. Tens of thousands more work for companies whose fortunes rise and fall with GM. Even the most optimistic local boosters concede that not all the jobless will get their old jobs back.

How did Flint get in these straits?

For years, talk about diversifying the economy remained just talk. "Everyone was waiting for someone else to do it," recalls Michael Carr, board chairman for the Flint Area Convention and Tourist Council.

Others note that GM, based in Detroit, has not played a leading role in broadening Flint's economy. "It's almost an absentee-landlord situation here," complains William S. White, president of the local Charles Stewart Mott Foundation.

Furthermore, bickering between government and business prevented any concerted action. In the mid-'70s, for example, local leaders sought state money for a marketing campaign to lure new industry. Then, the Chamber of Commerce and city officials disagreed over who should run the effort. All sides concede now that the initial conflict weakened the program.

Yet another problem: Steep wages and benefits in a town where the United Auto Workers Union is a dominant force. "The pay is very high here when stacked up against the rest of the nation," says Carr of the convention council. "Businessmen hesitate to locate here."

Ultimately, say residents, Flint became a victim of its own success. Every time people got worried enough to fight for a broadening of the business base, car sales would pick up once more. "The auto industry always came out of its slump, and everything was hearts and flowers again," explains A. Robert Kucab, executive director of the Flint Neighborhood Improvement and Preservation Project, Inc.

There also was a self-image problem, say local officials. Ideas for development were scoffed at. The prevailing attitude was that Flint is a factory town. Leave it alone.

However, those attitudes began to change after the severe recession of 1973-75. A revitalization campaign, launched with the help of funds from the Mott Foundation, has begun to change a cityscape pockmarked with boarded-up buildings.

The first major step toward rejuvenation was the 14.6-million-dollar Riverbank Park. Completed in July, 1979, it stretches for four blocks on both banks of the Flint River. The park was followed by a string of other downtown projects, some still under construction. Showpiece of this effort is a planned 60-million-dollar theme park, AutoWorld, that officials hope will open in 1984.

Still, it is clear that the rebirth effort has a long way to go before the city can survive auto-industry slumps with minimal damage. "I don't think Flint can ever be free of General Motors as its principal employer," says Kucab of the neighborhood-improvement organization. "We're saying, let's try to make the lows not so low." □

By JUDITH B. GARDNER with SARAH PETERSON and GORDON WITKIN

In the Growing Debate Over El Salvador—

Can El Salvador be saved from a Communist takeover by a reasonable infusion of American military and economic aid? Or is the U.S. sliding inexorably into a Vietnam quagmire in its efforts to defeat the Marxist guerrillas in that Central American country?

A national debate is shaping up around that issue as the administration weighs critical decisions on the future U.S. role in the conflict.

What follows are comments by key participants in the evolving debate: A defense of administration policy by two cabinet members, and the views of two senators and a congressman following their recent fact-finding mission to El Salvador.

"Guerrillas Are Supported, Aided and Controlled" From Outside El Salvador

***Secretary of State Alexander M. Haig, Jr.,** from an interview on PBS's "The MacNeil/Lehrer Report," February 16:*

Q. Has the point now been reached when President José Napoleón Duarte's government cannot prevail without outside help such as combat troops?

A. Not at all. On the other hand, it's very clear that today the guerrilla forces in Salvador are supported, aided, abetted and indeed largely controlled from territory outside of Salvador. If that were to continue as an open-ended and escalating involvement, why, then we in the United States and those who are concerned about events in Salvador would be seized with a serious problem. . . . We have been addressing the issue. . . . That's going to require additional assets: Socioeconomic, developmental assets as well as military and security-related assets.

Q. You have refused to rule out the use of military force in El Salvador. Why is that?

A. Anyone with my responsibilities is obligated to maintain a full panorama of options. . . .

The President has already reassured the American people repeatedly that there are no current plans under way for the deployment . . . of American military forces in Central America. On the other hand, what could be more self-defeating than for a nation . . . to lay out conditions under which it will be guided in the period ahead? All that does is provide to those who do not bear your interests in mind or who may be antagonistic to those interests a roadway through which they can conduct their own strategy and policies. . . . I happen to know that the President's view on that question is that these are *i*'s that should not be dotted and *t*'s that should not be crossed.

Q. You concede the point that at this stage the American people would not support sending U.S. forces there—

A. The majority of the American people would be appalled at the prospect of American involvement militarily anywhere in the world. I do think, however, that [armed aggression on] our own doorstep poses a different set of problems, perhaps, than in distant Vietnam or the Middle East or perhaps some other area.

And let me tell you also that the conduct of American foreign policy cannot be [based on] the lowest common denominator of the populist view of our people. Our people elect a President to lead, to take the responsibilities in accordance with the dictates of his conscience, and if he makes a bad call, well, they'll just plain vote him out of office. But if we were to determine our foreign policy based on the lowest common denominator of the national mood, I think we would be on very fallacious ground.

Q. Some claim that the only hope for a peaceful solution is negotiation with the guerrillas. Do you disagree?

A. We very much favor negotiations which would lead towards a presidential election in Salvador . . . and which would permit the peoples of Salvador to exercise their right for self-determination. We would not agree to a prearranged splitting of political power—by guerrillas or anyone else—that is not reflective of the will and desires of the people of El Salvador. . . .

Thus far, the guerrillas have refused to participate [in elections scheduled for March 28]. They've refused to commit themselves to a cessation of the use of violence. And in that environment these elections are just another step in the direction of what we hope will be ultimately a free expression of the people of El Salvador.

"We Have to Make Sure We Don't Allow on The Mainland a Bastion of Communism"

***Secretary of Defense Caspar Weinberger,** from an interview on NBC's "The Today Show," February 16:*

Q. There have been stories that the CIA feels, without U.S. aid, perhaps combat troops, our side is going to lose in El Salvador—

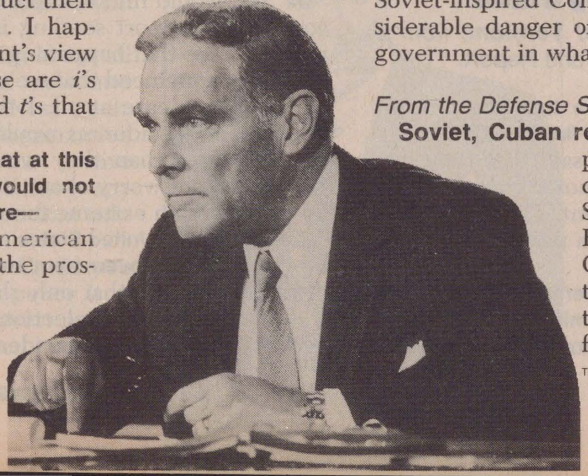
A. There's been no suggestion of that that I know of. What the suggestion is, what we have discussed and what necessarily has to continue to be discussed is the degree of assistance that we can provide El Salvador—strengthening them to do the job that they want to do. So far, we've been able to do the things requested.

Q. Do you agree that we have to do whatever is necessary to prevent a Marxist takeover?

A. We do have to make sure that we don't allow on the mainland . . . a bastion of Communism, a foothold to be given to this kind of thing. It would make the defense of the United States infinitely more difficult. We have a lot of those problems with Cuba. They would be multiplied many times over if that situation were transferred to the mainland. . . . I think it's very much to our interest to have El Salvador remain as a country that is free of Marxist-Cuban-Soviet-inspired Communism. And I think that there's considerable danger of that happening if we don't assist the government in what it's trying to do.

From the Defense Secretary's annual report to Congress:

Soviet, Cuban role in El Salvador. "The Cubans have played a key role in arranging for the acquisition and delivery of weapons to the Salvadoran guerrillas from Vietnam and Eastern Europe by way of Nicaragua. Guerrilla recruits have been transported to Cuba and elsewhere for extensive training. The Soviet Union has, of course, funded and assisted these efforts by un-



THOMAS J. O'HALLORAN—*USN&WR*

derwriting its Cuban proxy at a cost of 3 billion dollars annually and by supporting efforts to collect funds, arms and supplies for delivery to the guerrillas."

Military assistance as a stopgap. "In view of the potentially serious threat to American security interests there, the Caribbean Basin must receive higher priority and far greater resources than in the past. In order to gain time to address the underlying political, economic and social problems of the region, we must cooperate closely with our neighbors. We must halt terrorist aggression and deter further military attacks in the hemisphere. A failure to respond to the current threat could only lead to far greater human and material costs in the future."

"American Troops Would Have a Very Difficult Time Fighting in El Salvador"

Representative John P. Murtha, Democrat of Pennsylvania, *from a February 17 press conference:*

Danger of direct intervention. "I was in the Marines, as an intelligence officer, for a year in Vietnam, and that was rugged territory. You realize how difficult it is to fight in the jungles and how the guerrillas can control the situation in the jungles. El Salvador is worse. I mean, it's—there's not a level piece of land in El Salvador, and American troops would have a very, very difficult time fighting in El Salvador."

Importance of increased military aid. "The impression I received . . . was that if aid is cut off to El Salvador, then this country will not be able to survive. . . . It [U.S. aid] depends on the amount of Communist aid that comes into the country. You can't judge until the time comes how much more aid the United States will have to give in order to keep the situation as it is. . . . I'm one person who would not vote for continued foreign aid unless the election result went to the moderates. . . . [If it doesn't,] . . . then eventually the Communists will win out in El Salvador."

Change in outlook on human rights. "Even the [Salvadoran] Army admits that they have a difficult time controlling their people. . . . The Army, I think, has finally gotten the message. They are arrogant, and they are hard to control. But they are finally . . . getting the message: If they expect any aid from the United States, they're going to have to control the violence and brutality of the soldiers and they're going to have to discipline the people if they do get out of hand."

Danger of "no more Vietnams" stance. "We have to look at the Vietnam situation over all. What happened in Vietnam after we left? We've all seen the boat people, and we've all seen the bloodbath in Cambodia. When you look at the overall situation, you realize that we may have been fighting a difficult and losing war, but the results were somewhat near what we predicted."

"Everything I Saw Confirmed Government Forces Could Not Win" as They Stand

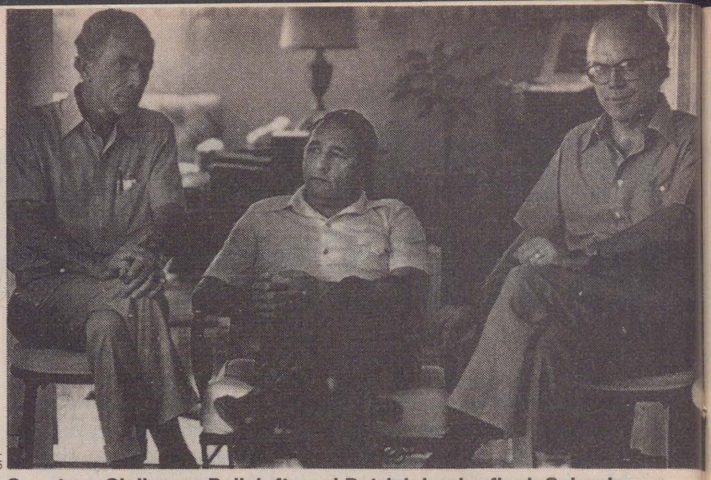
Senator Patrick J. Leahy, Democrat of Vermont, *from a February 18 interview with* U.S.News & World Report:

Q. What was the most vivid impression that you brought away from viewing the El Salvador struggle first hand?

A. The fact that person after person said that they just wanted the killings to stop. They were not taking the position of the guerrillas or of the government. They just wanted the killing to stop. It was a kind of "a pox on both your houses" attitude.

Q. Is the military chief, General José Guillermo García, closing his eyes to mass murders and atrocities committed by his troops?

A. At first, he did not want even to admit that they were taking place—then that it was the National Guard and not the Army. Finally, having pushed him considerably more, he admitted that, yes, there were some, but that the guerrillas were really bad, too. That—and also the fact that atrocities go on and continue to go on by troops under his command.



UPI

Senators Claiborne Pell, left, and Patrick Leahy flank Salvadoran President Duarte during talks on their recent mission.

Here's a man with ironclad control over the military. And yet there is nobody who has reviewed it who says that a lot of the killings taking place—the majority of the killings taking place—are by the government forces.

Q. Who is winning the war in El Salvador?

A. I went down there having seen analyses suggesting that if things stay the way they are, the government forces could not win. Everything I saw down there confirmed what I had been told before I left Washington and was confirmed by even those within the military. They then go, of course, the next step: That they need massive American aid.

Q. What course should the U.S. follow after the elections in El Salvador next month?

A. After the election, we have the ability to say that it's now time for a real reassessment of the situation. We locked ourselves in very hard with the administration's early rhetoric—drawing the line against Communism in El Salvador and so on—and committed America's prestige in a very small country with very, very complex problems. We took too simplistic a view of it, and we've been locked into that simplistic view. I think the elections now give us an honest and face-saving way to take a hard look.

Q. Should the U.S. disengage from further involvement?

A. We can never really disengage, simply because El Salvador is in this hemisphere and so close by, and we do have real interests in Central America.

But we must utilize economic aid to try to bring about peace—either through negotiations or whatever steps appear available after those elections—and then try to help bring about some kind of economic stability.

If we're going to use military aid, it should be as a reward for recognition of human rights, which is certainly not being done now.

Q. What about dispatching American troops to El Salvador?

A. You would find it impossible to get a consensus in this country to support sending in American ground forces. I just don't see that happening.

I'm not convinced that we're going to reach a dead end if we show any care at all. I think that you'd find that the majority of Salvadorans would prefer to be allied with the United States than they would with Cuba or the Soviet Union. What I worry about is getting ourselves locked into an alliance with extreme forces.

Q. Should the United States encourage negotiations between the postelection government and the guerrillas?

A. Can I hedge that only slightly? I would obviously like to see what that postelection government is, but I would certainly lean toward the idea of negotiations. I would lean

toward it on the basis that it's worth trying. After all, what else has worked? Certainly nothing that we've seen. And it's also far more preferable to try that than to ultimately have to ask for American troops.

"Duarte Is a Weak Reed on Which We Lean, But He Is Our Only Reed"

***Senator Claiborne Pell, Democrat of Rhode Island,** from a February 18 press conference:*

Critical elections. "The situation [in El Salvador] remains very perplexing, very murky.... I do think we should not rock the boat until after the elections on March 28. And I think that if those elections take place so that the right-wing people win, then I think we should terminate our assistance at that time because that would produce a paroxysm from the left. If Duarte wins, then we'll have to take a long look at the situation. And I think any further help should be based on not only improvement in human rights, which is not going as well as it should, but also on negotiations between all the parties to the dispute."

How Salvadorans view the conflict. "If you come to a camp where the refugees are from a guerrilla area, they will talk one way. You come to a refugee camp where they're from a progovernment area, they'll talk another way. But ... the agony of this violence underneath is wrecking, is making its toll.... Each night we were there we heard the bombs go off at 7 o'clock or the guns fire around that time of the evening. On our way to the airport, we passed two dead bodies."

Future of the Duarte regime. "Duarte is a genuinely decent man, but has virtually no power. He's not a president; he's the chairman of the board of the junta.... People that he is with in the government are military people on the right. They're not as far to the right as the military dictatorship that they threw out in 1978, but they're still to the right....

"If Duarte wins, I presume he'd have more real power. He really is a weak reed on which we lean, but he is our only reed. I think if Duarte was assassinated—which could happen from the right wing, not from the left wing—I think then we're in a real pickle, and, as I said earlier, we ought to then get right out." □

When the President Fenced With Reporters Over El Salvador—

From the transcript of President Reagan's news conference at the White House on February 18, 1982:

Q: Mr. President, the Secretary of State has said that the United States will do whatever is necessary to head off a guerrilla victory in El Salvador.... Under what conditions would you send combat troops to El Salvador?

The President: Well, there are all kinds of options—economic, political, security and so forth—that can be used in situations of this kind. And, as I've said so often, I just don't believe that you discuss those options or what you may or may not do in advance of doing any of those things—except that I will say, lest there be some misunderstanding: There are no plans to send American combat troops into action anyplace in the world.

Q: If I could follow that up: Can you just envision any circumstances under which we would be sending U.S. combat troops to El Salvador?

The President: Well, maybe if they dropped a bomb on the White House, I might get mad....

Q: Mr. President, have you approved of covert activities to destabilize the present government of Nicaragua?

The President: Well, no, we're supporting them. The—oh, wait a minute, wait a minute. I'm sorry. I was thinking El Salvador because of the previous question when you said that. Nicaragua—here again, this is something upon which, in the national-security interests, I just—I will not comment.

But let me say something about all of Central America right now and questions on that subject. Next week, I will be addressing the Organization of American States on that entire subject, and therefore I'll save any answers to any questions on that subject for then.

Q: If I could follow up: Could you generally state what your policy is as far as having American covert operations to destabilize any existing government—without specific reference to Nicaragua?

The President: Well, again, I'm going to say this is like discussing the options, and no comment on this.

Q: Mr. President, although you have no plans to send combat troops to El Salvador, plans can be developed quickly. I'd like to hear some expression of your commitment, if there is one, not to use American combat forces in El Salvador.

The President: Your question again gets to that thing that I have always said I think has been wrong in the past when our government has done it—and I will not do it—and that is to put down specific do's or don'ts with regard to some situation that deals with not only security matters but even such things as trying to influence a situation such as the one in Poland. I think that to do so is just giving away things that reduce your leverage.

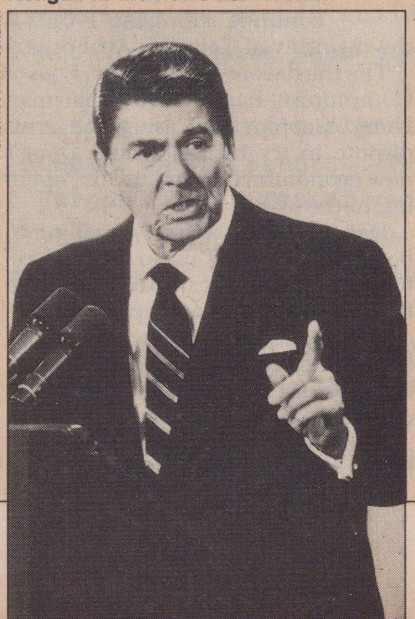
Q: I'm sorry, but I'd like to go back to Latin America now and El Salvador for a minute. In the 1960s, the CIA came up with a secret plan to get us involved in Vietnam in a surreptitious, covert manner. And is it possible that you can tell us that there is not a secret plan now, devised by the CIA or any other agency in government, to surreptitiously involve Americans in similar activities in Latin America? And can you also assure the American people that we will not go in there secretly without you and this government giving us some prewarning?

The President: Well, you know there's a law by which things of this kind have to be cleared with congressional committees before anything is done.

Q: Will you guarantee that there will not be a secret plan that you will not tell the American people about?

The President: I can't answer your question for the same reason that I couldn't answer George's. I just can't answer on that.

Reagan at the news conference.



CHICK HARRITY—USN&WR

Between U.S. and China—Sweet-and-Sour Relations

Cementing of closer ties is still the No. 1 goal. But sharp differences over American arms to Taiwan are blocking real accord.

PEKING

Ten years after former President Richard Nixon flew into Peking to forge new American links with the Chinese Communists, the fragile bonds of friendship are stretching toward a snapping point.

In both Peking and Washington, once strong confidence that Chinese-American ties would develop into a vigorous economic and strategic partnership is eroding rapidly.

Behind the change: Controversy over President Reagan's decision to keep selling weapons to the Nationalist Chinese government on Taiwan despite Peking's warnings of dire consequences. For China, the arms issue is the key indicator of relations with the U.S.—warm if the dispute is ended on Peking's terms, frigid or worse if disagreement persists. Talks aimed at breaking the impasse still are going on.

Taiwan's U.S.-designed F-5E. Taipei wants more-advanced planes; Peking argues against it.

But Chinese Vice Minister of Foreign Affairs Zhong Xidong says that he "cannot be optimistic" about the outcome. It is no exaggeration, he adds, to refer to the current argument as a Sino-U.S. crisis.

Roots of the controversy go back to the 1950s, when Peking was an enemy in the Korean War and America was trying to "contain" Communism everywhere. As part of this effort, the U.S. committed itself to arming Taiwan, where remnants of Chiang Kai-shek's Nationalists fled after their defeat on the mainland by the Chinese Communists in 1949.

Throughout the give-and-take leading up to resumption of relations between China and the U.S., the arms issue was regarded as a time bomb. But the benefits of reconciliation were so overriding that a showdown was put on the back burner—first, when Nixon agreed to the Shanghai Communiqué in Peking in late February, 1972, and again during negotiations resulting in President Jimmy Carter's recognition of China on Jan. 1, 1979.

Americans involved in those talks say that the U.S. always made clear its willingness to start negotiating the arms issue any time that Peking was ready. Last fall, China decided it needed answers—and quickly.

Three main worries underlie China's call for prompt action.

One is Reagan's long and well publicized friendship with the Nationalist regime. Many Chinese are convinced he still believes in "two Chinas" and that he harbors hopes Taiwan eventually can regain the mainland. If so, say officials in Peking, better to confirm that now than later.

A second concern is that any flow of U.S. arms would make Taiwan more confident and even more resistant to Peking's unification proposals. This fear explains why China rebuffed Reagan's recent formula designed both to satisfy Taipei and placate Peking.

Reagan's strategy: Reject Taipei's bid for advanced aircraft such as the F-16, but continue supplying F-5E's—the mainstay of Taiwan's Air Force.

The third worry is domestic. Foes of Communist Party Vice Chairman Deng Xiaoping are using the arms dispute to try to undermine Deng's new economic reforms and his "opening to the West."

Deng, himself, is seen as willing to be patient about Taiwan. But his reform program, his campaign to purge the bureaucracy of corrupt and inefficient officials and his downgrading of Maoist ideology are making enemies. So he must talk tough to counter charges of being "soft on America."

Deng vanished from public view for more than a month in early 1982.

UPI

Peking, 1972. Nixon and Premier Chou En-lai launch new Sino-U.S. era.

Subsequent rumors abroad that he had been pushed aside in a leadership struggle are evidence that the West also realizes he is walking a tightrope.

Mutual advantages. For all their differences, China and the U.S. believe cooperation is preferable to confrontation. Militarily, the U.S. no longer must give top priority to the possibility of war with China. Peking, while it has no guarantees of U.S. support in a clash with Russia, its archenemy, can be more confident in dealing with Moscow.

Two-way trade, while no bonanza, is expected to top 7 billion dollars in 1982—about six times the level before normalization.

Other factors also work against a complete break. U.S. oil companies, with capital and know-how that China badly needs, are preparing to bid on South China Sea exploration rights. The flow of students and scientists to America is undiminished. A new consular treaty has just been signed.

Still, a compromise over the issue of arms to Taiwan will be elusive.

As outsiders see it, Washington must give some concrete assurance that it recognizes China's sovereignty over Taiwan, perhaps by putting a time limit on future sales of weapons. Peking must concede, at least privately, that Washington needs to show good faith with Taiwan by continuing a degree of arms deliveries.

Intentions are good on both sides. But a decade after Nixon greeted Mao Tse-tung and Chou En-lai, now both dead, the Washington-Peking connection is in trouble, again at a crucial turning point.

By JAMES WALLACE

Worldgram®

FROM THE CAPITALS OF THE WORLD

MOSCOW • TOKYO • PEKING • ANKARA • ATHENS • LISBON • SALISBURY

Latest twist in Moscow's anti-U.S. campaign: Convince America's allies and friends that they can profit by opposing Reagan's hard line toward Communists.

The lure? A treasure house of economic, political and military goodies.

For Asia, Tokyo's "Asahi" newspaper was used to air Soviet line in rare interview with Premier Tikhonov. For Europe, West Germany's "Der Spiegel" earlier served as outlet for President Brezhnev. Interviews were stage-managed by top Soviet foreign-policy experts. The Kremlin's rosy view on basic issues:

China. Our border, other disputes are negotiable on a "reasonable" basis.

Japan. Help us develop Siberia and gain long-term energy guarantees.

Western Europe. We're no danger to peace. We want to negotiate arms controls. Moreover, you need our natural gas, and we're solid trade partners.

Moscow doesn't anticipate any fast breakthroughs. Japan, for instance, wants Russia to return islands it seized during World War II. That's out.

Atlantic Alliance isn't about to crumble. But peace groups gain ground.

Russians think U.S.-China relationship is unnatural, that sooner or later Peking will see advantages of friendship for Moscow, coolness to Washington.

Moscow's strategy, pure and simple: Divide its adversaries, then conquer.

China isn't about to play Kremlin's game. Peking is annoyed by blatant Soviet efforts to seek advantage from Chinese-American tensions over Reagan administration's desire to sell arms to Nationalist Chinese on Taiwan.

Moscow is accused of "trying to drive a wedge" between U.S. and China.

U.S. is fortunate. No important groups in China favor Russian ties over links with America. Chinese military is almost solidly anti-Soviet. A number of officers who earlier were pro-Moscow have been purged. But note this . . .

Soviet-Chinese trade is rising. Peking's planners want latest equipment, technology for their aging, Russian-built plants. New transport accord permits China to increase exports to Europe, using faster railway route across U.S.S.R.

Long-stalled talks about border disputes may be revived. But rule out any chance Moscow's warm words will ease Chinese suspicion of Soviet expansionism.

Kremlin also is eager to take advantage of growing disarray on NATO's southern flank and U.S.-European controversy over Reagan's foreign policy.

U.S. plans to hike military aid to Turkey. But Western Europeans hold back economic help, want to isolate Ankara, force military to abandon its

(over)

control. Washington praises Turkish leaders for restoring law and order, for striving to regain economic health, for promises to return to democratic rule.

Europeans are outraged by human-rights violations, including torture.

Even Moscow, until now tolerant of Ankara, joins European chorus, accuses military of "bestial" treatment of political prisoners. Why the turnabout?

Kremlin is wooing Greece, Turkey's rival. It might work. Here's why--

Athens and Washington are allies but disagree on major issues. Examples: Russia's role in Poland. Servicing of Soviet ships in Greek dockyards. U.S. aid to Turkey. Greek recognition of the Palestine Liberation Organization.

In months ahead, Athens will be negotiating with U.S. and NATO on future of American bases in Greece. Moscow would dearly love to see them liquidated.

Socialist Premier Papandreou threatens to quit NATO unless Greek security from Turkish attacks is guaranteed. Still, he may not press too hard. He needs U.S. military aid, Western economic support. Even so, European criticism of Turkey, Greek infighting with U.S. seriously weaken NATO. That's not all.

Portugal, western pillar of alliance's southern flank, also is in trouble.

Worry centers on alleged Communist-inspired terrorist plots against the right-of-center government. Actually, roots of the crisis go much deeper.

A fledgling democratic system isn't hitting on all cylinders. Efforts to purge the Constitution of its "revolutionary" bias get nowhere.

Prime Minister Balsemão is unpopular, his coalition government weak. The Socialists are split. Pro-Moscow Communists foment nationwide strikes in an effort to divert popular attention away from martial-law excesses in Poland.

Unions and Communists use strikes to push for higher pay even though belt-tightening, spending cuts are imperative to halt a crippling economic slump.

Junior military officers fume about their low pay. Civilians don't need a reminder that armed forces were top dog not long ago, could take over again.

End of a partnership of former black guerrillas who won freedom from white rule in Rhodesia, now Zimbabwe, is only the first round in upheavals to come.

Prime Minister Robert Mugabe fired Joshua Nkomo, junior partner in 22-month-old coalition, setting stage for Mugabe's dream of a one-party state.

It's not a reality yet. Civil war is possible. Two leaders are from separate tribes that are bitter rivals. Arms used in guerrilla war are hidden.

In fact, rifles, ammunition, ground-to-air missiles found in searches of farms, other property owned by Nkomo's party touched off the political crisis.

But Nkomo denies he and white-ruled South Africa plotted to oust Mugabe.

A further worry: Zimbabwe's new national Army includes officers and men who fought in Mugabe's and Nkomo's rival guerrilla forces. Will troops stay integrated, loyal to the state? Or will tribal antipathies tear Army apart?

On the answer rests security for whites who hold responsible jobs, play critical role in nation's economy. Lacking security, many will leave.

Why U.S. Is Taking New Interest in Morocco

It's a matter of value given for value received. Reagan needs a firm friend in North Africa. King Hassan wants help in a costly desert war.

RABAT

The Reagan administration, in an abrupt reversal of U.S. policy, is re-embracing a onetime American ally and sharply stepping up support for Morocco's beleaguered King Hassan II.

In recent months, a number of top U.S. officials, including Secretary of State Alexander Haig and Defense Secretary Caspar Weinberger, have visited this North African nation to bolster the 52-year-old King, who is beset by woes stemming largely from Morocco's 6-year war against Polisario guerrilla forces in the Western Sahara.

The U.S. message, as expressed by American Ambassador Joseph Verner Reed: "Count on us. We are with you."

Ronald Reagan's increased concern for the King's problems contrasts with lukewarm backing given Morocco by former President Carter, an attitude Hassan now criticizes as "pettiness."

Two main reasons lie behind the switch—Morocco needs U.S. help, and the U.S. needs a stable Morocco.

Hassan's search for outside backing is becoming more urgent as efforts to control Spain's former colony in the Western Sahara face tougher Libyan-inspired resistance from the Polisarios, who seek independence for the territory. The King feels that only Reagan can or will provide this help.

The U.S. fears that if nothing is done to counter growing pressures on Hassan, another pro-Western regime—one of strategic and political importance in both the Arab and African worlds—could go under as did the Shah of Iran's. This would seriously handicap American efforts to form a "strategic consensus" among nations in North Africa and the Middle East to blunt Soviet ambitions in the Persian Gulf region.

On the list. The King makes no secret of what he wants from the U.S.: Substantially larger arms supplies to meet escalating fighting in the Western Sahara. U.S. military aid to Morocco now runs about 30 million dollars a year.

Hassan's shopping list includes more helicopters, sophisticated radar equipment, additional M60 tanks beyond the 108 already ordered and more training for Morocco's Air Force.

PHILIPPOT—SYGMA

King Hassan seeks U.S. weapons to defeat Polisario forces in Western Sahara.

He also seeks greater U.S. diplomatic help to counter Morocco's isolation on the Sahara issue. "The King is feeling lonely," a European diplomat explains. "He wants reassurance and comfort and sees the U.S. as the answer."

While Washington is ready to help, American officials here stress that there are limits. There will be no direct U.S. involvement in the Western Sahara war and no outright backing of Morocco's claims of sovereignty over the territory. In Washington's view, only negotiations can settle its status. Still, evidence is steadily mounting of closer ties between the two countries that first signed a friendship treaty in 1787:

- Establishment during Haig's mid-February visit of a joint military commission. Morocco may also grant American military forces transit rights at air bases at Kénitra and Sidi Yahya if a Middle East crisis erupts.
- A tougher U.S. line against the Polisario, the Algerian-based, Libyan-supplied group that has been fighting Moroccan troops to a standstill.
- Willingness to ease previous restrictions on use of U.S.-supplied arms in the Sahara and fast replacement of weapons lost in combat.
- Stepped-up efforts to boost trade, strengthen cultural links and promote private U.S. investment in Morocco.
- Increased economic aid, including 230 million dollars in new U.S. credits and loans to buy emergency food.
- A diplomatic drive by the U.S. to persuade neighboring Algeria to cut back support for the Polisario and full American backing for efforts by the Organization of African Unity to arrange a referendum of Western Saharans to determine their wishes.

Some changes are more symbolic. A huge American flag flies outside the U.S. Embassy in Rabat in place of one half that size ordered flown by the Carter administration. The American ambassador is a frequent guest at the royal court—to the chagrin of the French, who had held the No. 1 position here.

Warmer relations with Hassan's Morocco would be a big plus for the United States. It is strategically located at the western gateway to the Mediterranean, is staunchly anti-Communist, opposes Libya and has been ready in the past to back the U.S. with troops in Third World hot spots like Zaire. "Hassan sees himself as an Arab spokesman to the U.S., an intermediary," says a diplomat.

The harbor at Tangier is large enough for nuclear-powered aircraft carriers. Moroccan airfields could be refueling points. Morocco also is the site of a mothballed U.S. communications station that could link American forces in the Mediterranean directly with the American mainland.

The U.S. gave up four air bases under Moroccan pressure in 1963 and abandoned the communications station in 1979. Now, with Hassan needing help and the future of American bases in Spain and Greece far from certain, Washington is again interested in Moroccan alternatives.

Still, Hassan must tread warily. Says a European diplomat: "The question is how far Hassan can go toward the U.S. without jeopardizing his support in the

The War for Africa's Sandbox

A sun-scorched, desolate and underpopulated expanse of sand the size of Colorado holds the key to Morocco's future.

Traditional home of desert nomads, it is known as the Western Sahara by much of the world and as the Sahrawi Arab Democratic Republic by Polisario guerrillas fighting for its independence. The territory was colonized as the Spanish Sahara in 1884. Spain pulled out in 1975, and Morocco and Mauritania took over.

The Polisario, armed by Libya and based in Algeria, launched the war. Too weak to hang on, Mauritania withdrew in 1979. Morocco then annexed Western Sahara's entire 103,000 square miles, citing claims dating from the 16th century.

Hit-and-run war continues. Much of the population—between 75,000 and 300,000 nomads—fled or was forced into Polisario refugee camps in Algeria. The rest are in a few towns, mostly near the coast. Armored jeeps have replaced camels, and little remains of the nomads' tent lifestyle.

The estimated 15,000 fighters of the Polisario claim a "liberated zone" 30 miles from bases near the Algerian town of Tindouf.

About 85,000 Moroccan troops are dug in behind a 10-foot-high, 400-mile-long sand "berm," protected by land mines and detection devices. Built around the northern region that contains valuable phosphates, it hinders Polisario probes against El Aioun, the capital, and other towns.

In a major battle last October, the Polisario used Soviet-made SA-6 antiaircraft missiles and T-54 tanks for the first time, shooting down four planes and driving Moroccan troops from an outpost near the Mauritanian border. Western military observers call the war "a stalemate."

Efforts to bring the two sides to the peace table are as elusive as a desert mirage. Meanwhile, Morocco and the Polisario are digging in for a war of attrition, a war neither seems capable of winning.

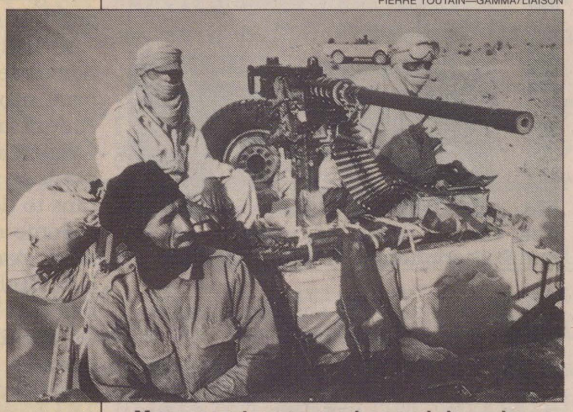
Arab world. It would be suicidal for him to appear to be a U.S. puppet."

For now, Arab financial help, particularly from Saudi Arabia, is more important than aid from the United States. The Saudis bankroll the Saharan war effort to the tune of almost 2.8 million dollars a day. Payments from Moroccans working in Persian Gulf states bring in badly needed hard currency. In forums like the Arab League, Moroccans still can count on majority support when the Western Sahara issue is debated.

Valuable though Hassan is, he also presents Washington with liabilities—and they have grown in the past year.

Foremost is the war in the Sahara, which one Western expert says is "bleeding Morocco dry." The Army—one of Africa's most professional—has doubled in size to more than 150,000 in the last six years. Hassan, wary since two attempts on his life by military men in the early 1970s, keeps day-to-day command. Military spending takes more than 40 percent of Morocco's budget. Tanks ordered from the U.S. are ready but cannot be shipped until the King finds the cash to pay for them.

PIERRE TOUTAIN—GAMMA/LIAISON



Moroccan troops are bogged down in war against Libyan-backed guerrillas.

But the King also benefits from the conflict in the Sahara. His 21 million people fervently believe in a Moroccan Western Sahara, and the fighting has united them behind their monarch like nothing else during his 21-year reign.

An alibi. "The war has reinforced the monarchy's pivotal position in Moroccan life," an opposition politician admits. "The fighting has also helped divert attention from Morocco's internal difficulties and provides the King with an alibi for them."

Yet Hassan's popularity suffered a blow last June when price increases for food and other essentials, brought on by soaring war costs, triggered riots in Casablanca, Morocco's biggest city. More than 100 people died, and the situation is not yet back to normal.

At the beginning of 1982, leaders of the main opposition political party were serving jail sentences for daring to criticize the King—something forbidden by the Moroccan Constitution. "We used to be able to oppose fairly openly," says one critic. "Now we must be extremely careful. Hassan seems to think he can shore up his position by taking the initiative and imposing a consensus. But there is too much opposition for that to work any more."

Hassan knows that economic problems could erode his power. Unemployment affects 1 in 3 adult men. December rains saved the early 1982 harvest. But farm output dropped one third because of a 1981 drought that forced the slaughter of 40 percent of Morocco's livestock. Food-import and oil costs have soared. Only a 1-billion-dollar loan from the International Monetary Fund 18 months ago enabled Morocco to escape deeper trouble.

Living standards are sagging. Among the prime sufferers are Morocco's newly emerging middle class—previously staunch monarchists but now increasingly cynical of Hassan's rule. "The longer the war drags on, the more people are starting to link it with economic problems," says a university professor in Rabat. "It's dangerous for the King."

Following Shah? Unable to halt the economic slide, Hassan may seem in danger of the same fate as the Shah of Iran. Parallels to the Shah do exist. Hassan's lifestyle is lavish, and Moroccans say corruption runs through public life. Loyalty of the Army is uncertain.

But unlike the Shah, the King is religious leader of his Moslem nation. His dynasty claims descent from the prophet Mohammed and has ruled for 300 years. Hassan consults religious leaders before making major decisions. Throughout his regime, Hassan has cultivated opposition views, even though he alternates such benign tactics with occasional tough crackdowns designed to underline his power.

U.S. officials here are aware Hassan could be toppled by events that Washington cannot influence. But they believe his future is far from hopeless. If prices for phosphates—Morocco's biggest export—increase, they say, Morocco has a good chance to recover. Also, Hassan is an astute politician. "Unlike the Shah, he hasn't lost his touch yet," says one American.

For all the difficulties, there is no question of U.S. resolve to support Hassan. Describing Morocco's concerns as "my country's concerns," Ambassador Reed vows that "the United States will do its best to be helpful in every area of need that may arise." □

By ROBIN KNIGHT

ARTHUR GRACE—SYGMA

Long line outside Moscow state shop symbolizes an economy of scarcity.

J. P. LAFFONT—SYGMA

Butcher shop in Poland with no meat—a common sight in Soviet bloc.

Communism

The Great Economic Failure

Permanent austerity, slothful workers, unhappy masses—the reality is far from the dream. And worse still may lie ahead.

For the 1.5 billion inhabitants of the Communist world, the Marxist promise of a workers' paradise has turned into a nightmare of permanent scarcity, economic stagnation and discontent.

Poland's economic disaster, which spawned a now aborted revolt by disillusioned workers, is the most dramatic symptom of a wider crisis gripping the Soviet Union and a dozen other nations that copied its economic system.

In Russia itself, 65 years after the revolution, the masses of people still must queue for hours, not just for luxuries but even for meat. Grim as they are, living standards in the U.S.S.R. and much of Eastern Europe are expected to deteriorate. Economic growth rates, impressive in the '50s and '60s, are sliding to near zero levels. Officially regulated prices are skyrocketing—up by as much as 400 percent for foodstuffs in Poland.

Intensifying the pressure on supplies and costs in Russia is the fact that a worker produces only half the goods and services turned out by his American counterpart. The economic squeeze is likely to be increased by the loss of easy access to Western loans that have been used to import technology and industrial equipment. Banks in the West have provided an 80-billion-dollar crutch for limping Soviet-bloc economies—surpassing the Marshall Plan aid that helped to rebuild Western Europe after World War II.

Not just money and technology have been imported from the West on a lavish scale. Features of the free-market system increasingly have been copied by a number of Eastern European countries as well as by China in an effort to escape from the crippling vise of Soviet-style "command economies." The Soviet-bloc states that are doing best have reformed the most.

Economists stress that the crisis in the Communist world differs fundamentally from the recession plaguing the West today. The slump in the U.S. and Europe is seen as cyclical, with the prospect of recovery over the next year. By contrast, the economic crisis in the Soviet bloc stems from structural problems within the system itself and is expected to persist—perhaps even worsen—unless basic reforms are introduced.

The Soviet system, as it operates now, has what many economists see as formidable built-in obstacles to progress. A central planning group—Gosplan—sets wages, prices and production goals and allocates resources more on a political than economic basis. The first objective for an industrial manager is to persuade the planners to set low targets that can be easily achieved and win rewards rather than press for higher output.

Also: With prices set arbitrarily, planners cannot tell whether their decisions will produce a balance of supply and demand. Shortages crop up suddenly, and the system is too rigid to adjust. Finally: Workers and managers have no incentive to work hard since laborers rarely get fired and there are few material rewards for greater efficiency.

To examine the fate of the Marxist economic experiment and the prospects for revitalizing the system, staff members of *U.S.News & World Report* talked to experts in this country and abroad and conducted on-the-spot inquiries in major Communist countries. This is what they found:

The Soviet Economy—Shackled by Inertia

Despite its standing as one of the world's two superpowers, the Soviet Union provides its populace with one of the lowest living standards among industrial nations. Although the U.S.S.R. has a vast store of natural resources, economic growth has slowed dramatically from the sharp upward trends of the '50s and '60s. The increase in the national product, according to one authoritative study, is now crawling along at 1.2 percent a year.

Nicholas Daniloff, the magazine's correspondent in Moscow, reports: "The fact that the Soviet economy is an economy of scarcity is underlined by long lines at stores, black marketeering, bribe giving and bribe taking—and the government's new harsh campaign to stamp out speculation and corruption."

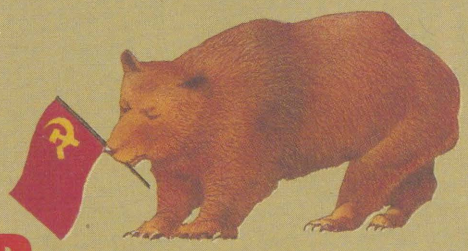
Especially grim is the situation in Soviet agriculture. For the third year in a row, Russia has suffered a major crop

failure. As a result, says Marshall Goldman, associate director of the Russian Research Center at Harvard, "the Soviet Union finds itself with a disaster of unprecedented magnitude on its hands."

Adverse weather is a factor, but basically the disaster stems from the monumental inefficiency of the Soviet system of collectivized agriculture. Almost a quarter of the Soviet workers are in agriculture, and they still can't feed the nation. By contrast, only 3 percent of the American labor force is engaged in farming and produces vast surpluses. Each U.S. farm worker feeds 60 Americans; each U.S.S.R. farmer feeds only eight Russians.

Ironically, the only bright spot in this bleak picture of Soviet agriculture is the island of free enterprise in the

U.S. VS. U.S.S.R.



A comparison

PICTOGRAM®

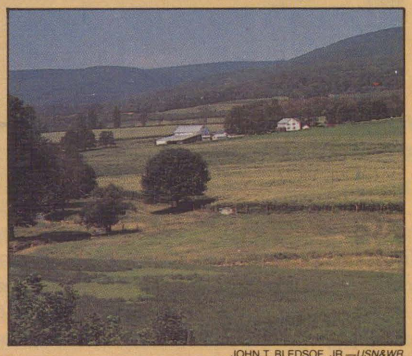
Total Output

U.S.	$2.9 tril.
U.S.S.R.	$1.4 tril.

JOHN T. BLEDSOE, JR.—*USN&WR*

Land Area
(square miles)

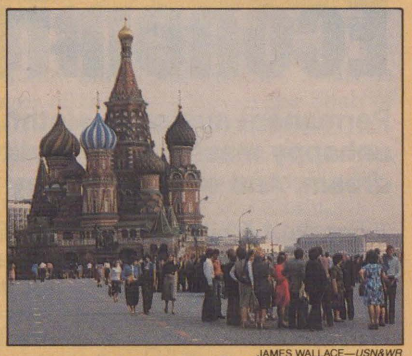
U.S.	3.6 mil.
U.S.S.R.	8.6 mil.



JOHN T. BLEDSOE, JR.—*USN&WR*

Population

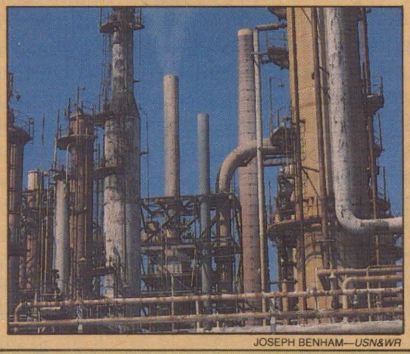
U.S.	230 mil.
U.S.S.R.	268 mil.



JAMES WALLACE—*USN&WR*

Oil
(barrels produced per day)

U.S.	8.57 mil.
U.S.S.R.	12.18 mil.



JOSEPH BENHAM—*USN&WR*

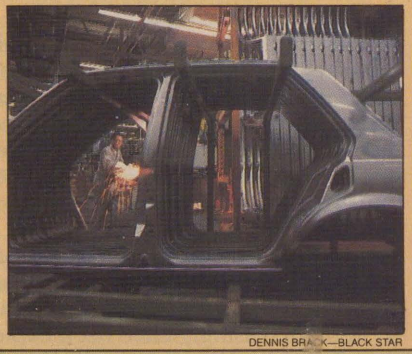
Steel
(production in metric tons)

U.S.	100.8 mil.
U.S.S.R.	148.0 mil.

JIM PICKERELL—BLACK STAR

Autos
(production)

U.S.	6.4 mil.
U.S.S.R.	1.3 mil.



DENNIS BRACK—BLACK STAR

otherwise collectivized society: The tiny private plots that workers on collective and state farms are allowed to cultivate—occupying less than 2 percent of the farmland but producing one third of the total meat-and-vegetable output.

The recurrent agriculture disasters multiply Russia's industrial troubles. To pay for imports of grain to feed its people, the Kremlin was compelled to sell 224 tons of gold abroad in 1981. This impedes the drive to modernize Soviet factories by limiting funds available to buy Western technology.

However much they value technology developed in the West, the Russians resolutely reject any notion of importing any of the features of the free-enterprise system that spawns the advanced technology. Kremlin leaders even spurn suggestions that the small slice of private enterprise permitted to farmers be extended to repair services, restaurants and small shops. The central management of virtually every aspect of Soviet work seems firmly entrenched and stands out as a fundamental reason for the country's economic malaise. Says one Western expert based in Moscow: "They will tinker, but that's all they will do."

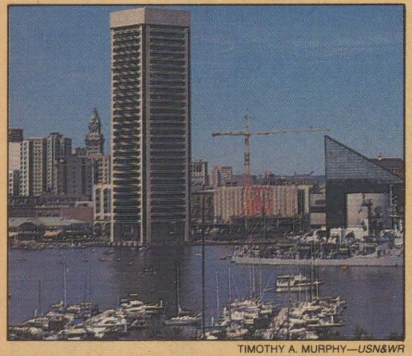
Compounding the problems is the fact that the people seem to have lost whatever incentive they had to work hard. Industriousness seems to have disappeared because the incentive of private gain has been banned. Ideological jawboning—exhortations to avoid waste and work harder—no longer has much effect.

Soviet officialdom makes no secret of its concern. Radio Moscow recently compared the Tolyatti plant, built by Fiat on the Volga River, and the Daimler-Benz plant in West Germany. The broadcast complained that Soviet output

n of world's two largest economies—

Urbanization
(percentage living in urban areas)

U.S.	73%
U.S.S.R.	65%



TIMOTHY A. MURPHY—*USN&WR*

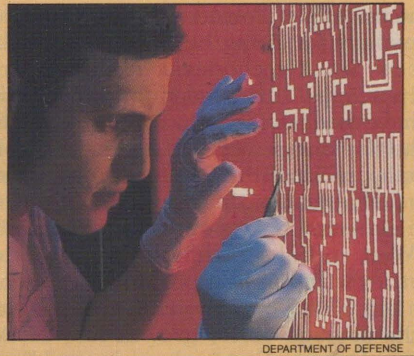
Energy Use Per Person
(equivalent of metric tons of coal)

U.S.	12.4
U.S.S.R.	6.1

TIMOTHY A. MURPHY—*USN&WR*

Computers
(value of general-purpose computer mainframes, end of 1980)

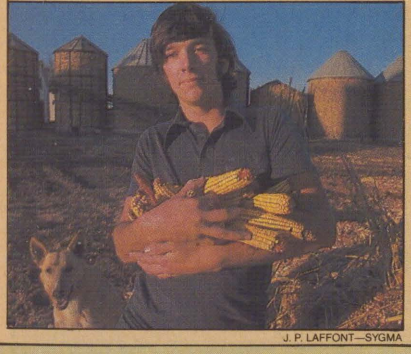
U.S.	$58.2 bil.
U.S.S.R.	$9.2 bil. (est.)



DEPARTMENT OF DEFENSE

Farm Workers
(as percentage of total work force)

U.S.	3%
U.S.S.R.	24%



J. P. LAFFONT—SYGMA

Meat Produced Per Person

U.S.	256 lb.
U.S.S.R.	126 lb.

WARREN K. LEFFLER—*USN&WR*

Grain Produced Per Person

U.S.	2,552 lb.
U.S.S.R.	1,571 lb.

WARREN K. LEFFLER—*USN&WR*

Note: Figures are for latest year available from both countries—usually 1980.

USN&WR charts by Carl Vansag—Basic data: U.S. government and industry sources

lags far behind in quantity and quality because of chronic absenteeism and extended tea breaks.

Aside from the inefficiencies of the system itself, what virtually rules out the prospect of a better life for the Russian people is the massive diversion of resources to the military. America's investment in defense, even with the increases now proposed, is modest by comparison. Although the Soviet economy is about half that of the U.S., the Russians devote 12 to 14 percent of total output to the military, compared with 6 percent in the United States. The defense establishment not only has first call on material resources but also on the best engineers and scientists.

On top of the military burden is the cost of preserving the Russian empire, which further drains scarce resources at the expense of the Soviet consumer. The U.S. Defense Intelligence Agency estimates that Soviet aid of all kinds to other Communist regimes soared from about 2 billion dollars in 1971 to nearly 24 billion in 1980.

The goal of a world converted to Communism is a pillar of Kremlin doctrine. But foreign aid, particularly goods shipped to Eastern Europe, is a source of bitterness to the Russian worker. He grumbles that the Eastern Europeans already are better off than he is—and he is right.

Eastern Europe—on a Risky Road to Reform

Nowhere is the search to break out of the Communist economic straitjacket more evident and risky than in Eastern Europe, where 109 million people in six countries have struggled under a Kremlin economic system imposed by Soviet might after World War II. The satellite states have little room to maneuver.

The tragedy of Poland today is cited as an object lesson of the penalty for going beyond the strict limits imposed by Moscow. Still, Czechoslovak economist Jaroslav Vejvoda admits publicly: "It is becoming clear that for a full 30 years we have been unable to solve problems associated with production under socialism, either in theory or in practice."

Today, most of the Soviet-bloc countries of Eastern Europe face economic stagnation, with growing shortages of basic materials, a hard-currency debt of 60 billion dollars to the West and dim prospects for the future. But even the countries with the best performance records, such as Hungary and East Germany, are now in serious trouble. Over all, the average yearly growth rate of Communist economies in Eastern Europe has plunged from 5.7 percent in 1976 to 1.2 percent in 1980, according to the International Monetary Fund. And an even worse slump is predicted in the period ahead.

A Communist Party newspaper in Czechoslovakia recently admitted: "It is no use covering it up. The economic situation today is much worse than five or 10 years ago. We have to make rapid adjustments or the whole system will be seriously threatened."

Government-ordered price increases make inflation in the U.S. look like stability. Romania on February 15 ordered price hikes on basic food products and cigarettes by an average of 35 percent. Meat prices went up 64 percent. Czechoslovakia just raised meat prices 137 percent. Poland on February 1 jumped the cost of foodstuffs between 200 and 400 percent.

Why the sharp economic deterioration throughout Eastern Europe? The Polish crisis is one factor—but by no means the most important one. Shortages of food, coal, sulfur and industrial goods have been aggravated through much of the Soviet bloc, which depended on Poland as a major supplier. But the crisis also has made Western banks much more cautious about financing East-West trade. Many analysts think that a cutoff of hard-currency loans would confront Eastern Europe with a real economic disaster.

Even before the Polish crisis, it was becoming evident that Eastern Europe's economic game plan was failing. Alfred Zanker, the magazine's European Economic Editor, reports that the strategy has been to borrow from Western banks to purchase advanced technology from the West. New plants and equipment were supposed to produce goods, such as typewriters, that could be exported to pay off the Western debt.

The hitch is that exports to the West have not increased enough to ease the debt because of the poor quality of their products or other shortcomings.

In an effort to bail out its Eastern European empire, the Soviet Union has been buying the inferior made-for-export goods from satellite nations and selling them oil at cut-rate prices. For example, Poland in 1980 bought Soviet oil at about 46 percent of the world dollar price.

But this year the Russians, themselves caught in a worsening squeeze, are refusing to increase oil shipments to the Eastern Europeans. The Soviets are committed to send oil at the 1980 level for the next five years, which actually means a sharp cut from 1981 levels and not enough for economic expansion. Furthermore, the oil is now being provided at near the world price, which adds greatly to the

Two Europes—Which Produces the Most?

	Total Output Per Person	Economic Growth 1980 vs. 1979	Energy Use Per Person (U.S.=100)	Proportion of Workers in Farming
WESTERN EUROPE				
Austria	$10,250	Up 3.1%	42	9%
Belgium	$11,800	Up 2.5%	55	3%
Britain	$ 9,400	Down 1.8%	46	2%
Denmark	$13,000	Down 0.2%	48	7%
Finland	$10,450	Up 5.0%	51	12%
France	$12,150	Up 1.2%	40	9%
West Germany	$13,350	Up 1.8%	54	4%
Greece	$ 4,200	Up 1.7%	23	38%
Ireland	$ 5,400	Up 1.9%	31	19%
Italy	$ 6,900	Up 4.0%	28	11%
Luxembourg	$13,000	Up 0.6%	*	*
Netherlands	$11,850	Up 0.5%	55	6%
Norway	$14,000	Up 3.8%	97	8%
Portugal	$ 2,450	Up 5.5%	12	25%
Spain	$ 5,700	Up 1.5%	23	15%
Sweden	$14,750	Up 1.4%	69	5%
Switzerland	$15,850	Up 4.4%	42	5%
Average	**$10,000**	**Up 1.5%**	**41**	**9%**
EASTERN EUROPE				
Bulgaria	$ 4,500	Down 0.3%	44	38%
Czechoslovakia	$ 7,650	Up 2.0%	55	11%
East Germany	$ 8,100	Up 2.6%	71	10%
Hungary	$ 4,950	Up 0.2%	33	16%
Poland	$ 4,650	Down 2.7%	47	31%
Romania	$ 5,250	Up 1.0%	39	33%
Average	**$ 5,700**	**Up 0.4%**	**49**	**25%**

Thus, on average, Western Europe outproduces Eastern Europe almost 2 to 1.

*Not available.

Note: Output per person is for 1980—latest available.

USN&WR—Basic data: Central Intelligence Agency, World Bank, International Monetary Fund, Organization for Economic Cooperation and Development, Population Reference Bureau, Inc.

drag on Eastern European economies. The result, say some economists, could be to push Eastern Europe to the brink of an economic calamity. A new study by the Central Intelligence Agency says that the cutback would virtually wipe out even the modest growth predicted this year. Czechoslovakia's annual growth rate would drop to 0.3 percent, and even in Hungary, the most buoyant of the Eastern European states, the rate would slide to 0.7 percent, a reduction of two thirds from the projected 1982 rate.

Damaging as the external setbacks have been, economists stress that the most basic problem in Eastern Europe is a fatal flaw in the system—the lack of incentives. Lester Thurow, economics professor at the Massachusetts Institute of Technology, points out that because of shortages there are few material rewards for hard work. Thus, the worker has no incentive to labor productively. Production falls, and stores end up with even fewer goods.

There also is little incentive for managers to experiment. Charles H. Movit of Wharton Econometrics notes that the system gives the greatest reward to managers who year after year overfulfill their production quotas by only 1 percent. A new approach that might improve production by 10 percent is not worth the risk.

In efforts to shake loose from this straitjacket, several of the Soviet-bloc countries are adopting Western-style incentive systems. Stewart Powell, the magazine's London-based correspondent who has traveled widely in Eastern Europe, reports that East Germany, for instance, offers bonuses, longer vacations and a shorter workweek for more productive workers. Also, 247,000 of the country's 8 million workers now are engaged in private enterprises in areas such as meat processing, building maintenance and retail trade.

Even so, East Germans seem dissatisfied. A major reason: Nightly they see on West German television what they lack in their own stores.

The most satisfied consumers in Eastern Europe are in Hungary and Bulgaria, primarily because those two countries have junked as much of the Kremlin model as they think they can get away with. Hungary already is so tied to Western economies, correspondent Powell reports, that were a trade embargo clamped on, half of Hungary's factories would be forced to close within 90 days because of lack of key components for finished products.

Experimentation with free-market concepts in Hungary, East Germany and Bulgaria is tolerated by the Kremlin, because, unlike in Poland, the political power of the Communist Party is in no way being challenged.

China—Taking the Leap to Freer Enterprise

All of the changes in European Communist countries are dwarfed by China's rush to embrace free-market practices. Reports James Wallace, the magazine's Asia correspondent: "Emphasis now is on productivity rather than equality, on pragmatism instead of ideology. Incentives such as bonuses and higher wages are replacing political exhortation. Profits are not only permitted; they are demanded by government leaders."

The reforms reflect Peking's acknowledgment of failure of its past economic policies, among the most doctrinaire in the Communist world. In its far-reaching effort to overhaul the economy, the Chinese government no longer assigns all workers to government jobs at fixed pay, under orders to fill production quotas set by central planners. It is encouraging free enterprise by offering tax exemptions and low-interest loans to the self-employed. Of the 40 million Chinese entering the job market each year, more than 2 million will end up working for themselves or for privately financed groups, mostly collectives.

The biggest departure is the planned reorganization of

JAMES WALLACE—USN&WR

Street vendors are a growing form of Western-style free enterprise in Communist China's cities.

industry. As in Western economies, the bottom line—profits or losses—will become the major factor. Each enterprise will pay to the state part of its profits, an amount roughly comparable to corporate taxes in the West. The rest will be used for higher wages, expansion or whatever the enterprise itself decides.

Furthermore, China's Communist leaders are offering new incentives in an effort to attract increased foreign investment. To reassure Westerners, they have introduced tax and other laws regulating foreign investments, joint ventures and co-production agreements. So far, such investment amounts to less than 1 billion dollars. Several Chinese provinces are competing to attract foreign business, much as American states do, with favorable tax rates, low-cost land and labor.

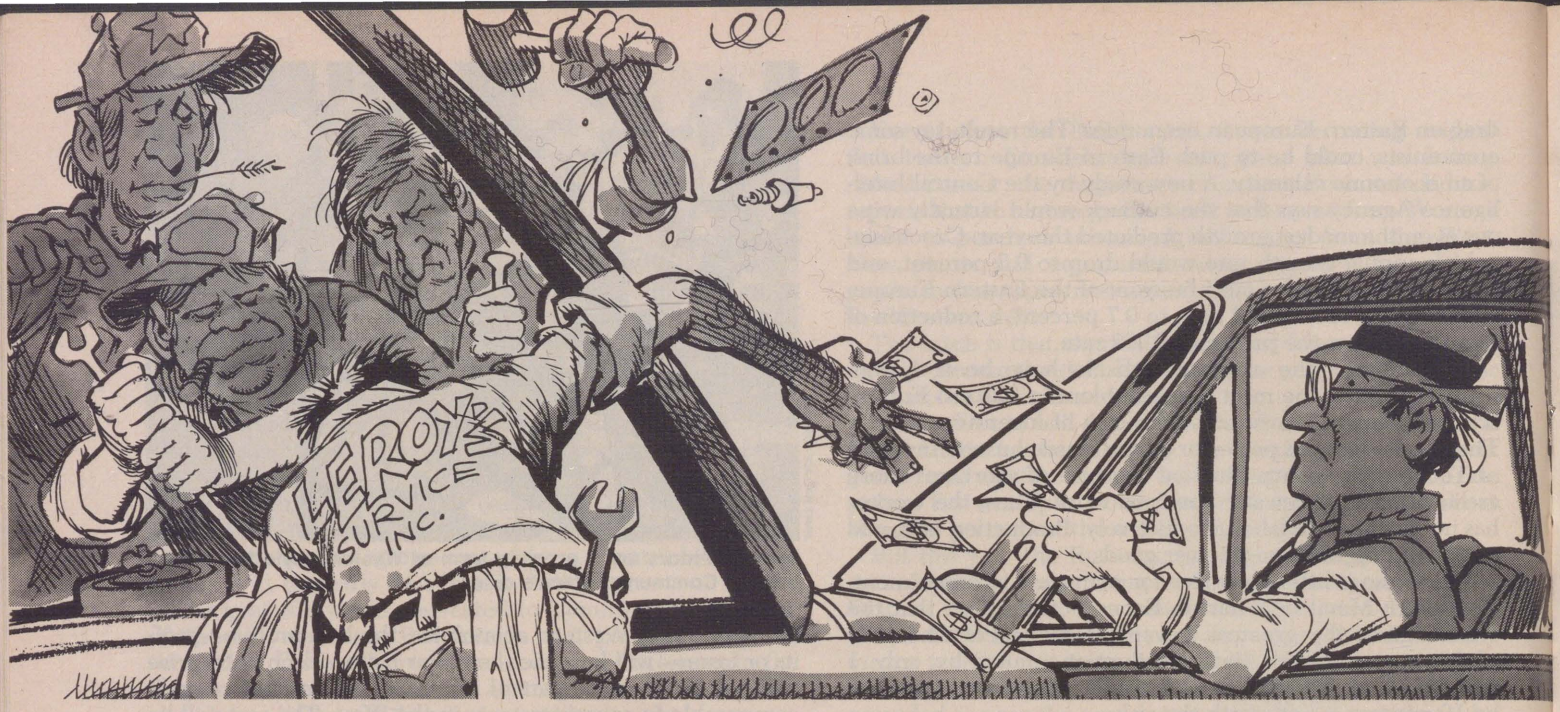
Such radical changes are not being made without a fight. Correspondent Wallace reports: "The most fundamental objection comes from Communist Party stalwarts who fear loosening economic controls will destroy firm central political control vital to any Communist system. So far, however, the reformers are winning. But they could be undone if the reforms do not produce quick, visible results."

Not only has the Kremlin model fallen flat in the more industrialized countries, but it also has proved to be a failure in the underdeveloped areas. Mozambique and Ethiopia, in Africa, are the most recent to embrace the Kremlin economic model as a fast way to prosperity through industrialization. They are both impoverished. Vietnam remains viable only with substantial subsidies from the Kremlin. Cuba needs billions in Russian aid to stay afloat.

The two Koreas provide a striking example of the difference the free-enterprise system can make. South Korea has one of the new miracle economies of the world, with a growth rate last year of more than 14 percent. Communist North Korea, with one fourth the output of the South, uses half its work force to feed its people, compared with little more than one third in South Korea.

All in all, the Communist economies of the world are at a crossroads. Central planning and collective agriculture appear to be failures. While still rejected by Russia as a threat to Communist Party political control, a switch to Western-style free markets and individual incentives is taking place in China and several Eastern European countries. Russia's willingness to join this trend and allow its satellites to go far enough with reforms could well determine whether the decline continues inexorably in the Soviet bloc or whether the slide can be reversed. □

By DAVID L. BARNETT with the magazine's foreign bureaus



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1974 or older	$800
1975-78	$700
1979-81	$600
USED CAR RETIREMENT PLAN	

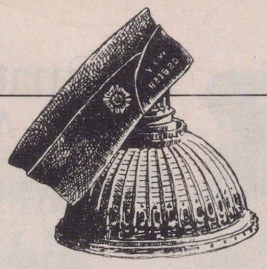
Program differs in Texas. Good at participating dealers only. Dealer contribution may affect price.

American Motors wants you to have a new car.

Spirit Liftback

Eagle Wagon

No End of Plans to Boost Veterans' Benefits



More cash assistance, broader dental care, solar-conversion loans—these are only a few of the ideas in Congress to help ex-service personnel.

President Reagan's call for stronger armed services is prompting Congress to take a fresh look at a vast array of proposals to expand veterans' benefits.

Offsetting an earlier vote to trim some programs, lawmakers have cleared measures to give disabled veterans an 11.2 percent cost-of-living boost and to expand veterans' home-loan and small-business-loan programs.

For a sampling of other ideas being considered by Congress to broaden assistance for the nearly 26 million veterans of various wars and more than 4 million other ex-service personnel—

Educational aid. The House Veterans' Affairs Committee has cleared a 1.4-billion-dollar bill as an option for the Vietnam-era GI Bill, scheduled to expire in 1989. Under the new legislation, an honorably discharged veteran attending college would receive a $300-a-month maximum payment for 36 months for service that began on or after Oct. 1, 1981. A veteran with at least 10 years' continuous service could transfer benefits to one or more dependents. The Veterans Administration opposes the bill because of its cost. It still must be approved by the House Armed Services Committee and the full House and Senate.

Commissary privileges. Surviving spouses of 100 percent disabled service personnel who died while on active duty could shop at the military's commissaries and post exchanges, under legislation proposed by Senator Daniel K. Inouye (D-Hawaii).

Remarried spouses. A bill offered by Representative Robert A. Roe (D-N.J.) would allow the surviving spouse of a benefit-receiving veteran to remarry after age 60 without losing any dependency and indemnity payments.

Mortgage insurance. Representative G.V. Montgomery (D-Miss.) has offered legislation that would require the VA to furnish up to $40,000 worth of home-mortgage insurance to veterans who have service-connected disabilities and who have been rejected by commercial insurance companies.

Solar energy. A measure backed by Representative Jack Brinkley (D-Ga.) would make VA loans of up to $5,000 available to home-owning veterans for installing, altering or improving a solar, wind or other solar-derived system to reduce the structure's energy needs.

Social Security. Increases in Social Security benefits to a veteran, his survivors or dependents could not be deducted from the veteran's VA pension or compensation check, under a bill offered by Representative Don Fuqua (D-Fla.). Existing law gives the VA power to make such deductions.

Dental care. Senator Spark M. Matsunaga (D-Hawaii) and Senator Inouye champion a bill that would allow veterans with service-connected disabilities of 80 percent or more to receive outpatient dental service and treatment even for dental problems that are unrelated to their injuries.

Life insurance. Legislation sponsored by Representative Barry Goldwater, Jr. (R-Calif.) would make veterans with a continuous disability eligible for free life insurance after age 65. A 65-year-old veteran now pays $47 per $1,000 for up to $35,000 worth of term insurance provided through the VA.

Free travel. Senator Matsunaga also has a bill to provide free travel on unscheduled military flights for veterans with service-connected total disability. The benefit already is available to military retirees.

World War I veterans. Some 449,000 veterans who served at least 90 days between April 6, 1917, and Nov. 11, 1918, would qualify for a $10,000 bonus, under a proposal by Representative Henry B. Gonzalez (D-Tex.). Another bill, backed by Representative Frank Horton (R-N.Y.), would provide a $150 monthly pension to World War I single veterans with income up to $8,000 and married veterans with income up to $10,000.

Honored veterans. Senator Alan K. Simpson (R-Wyo.) wants surviving spouses of Medal of Honor recipients to receive a pension equal to half the amount for which the medal winner was eligible.

Immigrant veterans. A measure by Representative Stephen J. Solarz (D-N.Y.) would provide health and hospital benefits for an unknown number of persons who served in the Russian, Estonian, Latvian or Lithuanian armies during World Wars I or II and are now lawful permanent residents of the United States. Also, a 10-year residency requirement for anyone serving with Allied forces to receive such benefits would be repealed.

Job credits. A proposal by Senator Alan Cranston (D-Calif.) would expand the coverage of the federal income-tax credit that employers get for hiring Vietnam-era veterans. Present law limits credits to those hiring such veterans not older than 35. Cranston's bill would remove the age restriction for Vietnam veterans whose military rank had been no higher than a major.

Judicial review. Veterans could seek a federal court review any time the VA's Board of Veterans Appeals disallowed a claim for disability or educational benefits, under a proposal by Representative Jonathan B. Bingham (D-N.Y.). Another bill, by New Jersey's Representative Roe, would create a special Federal Court of Veterans Appeals to hear such cases.

More compensation. An average of $250 more a month would go to the nearly 500 veterans whose service-connected disabilities involved the loss of or the lost use of both arms, under a bill sponsored by Senator Robert T. Stafford (R-Vt.).

Cooperative housing. Representative Marvin Leath (D-Tex.) has proposed that VA home-mortgage guarantees be extended to single-family residential units in cooperative developments or projects. Currently, such guarantees are available only for single-family houses, condominiums and mobile homes.

Drugs and medicines. Outpatients of veterans' hospitals could be reimbursed for the purchase of drugs or medicines from VA-approved private outlets, under a proposal by Representative John Hammerschmidt (R-Ark.). Currently, recipients of free pharmaceuticals must obtain them directly from the VA. □

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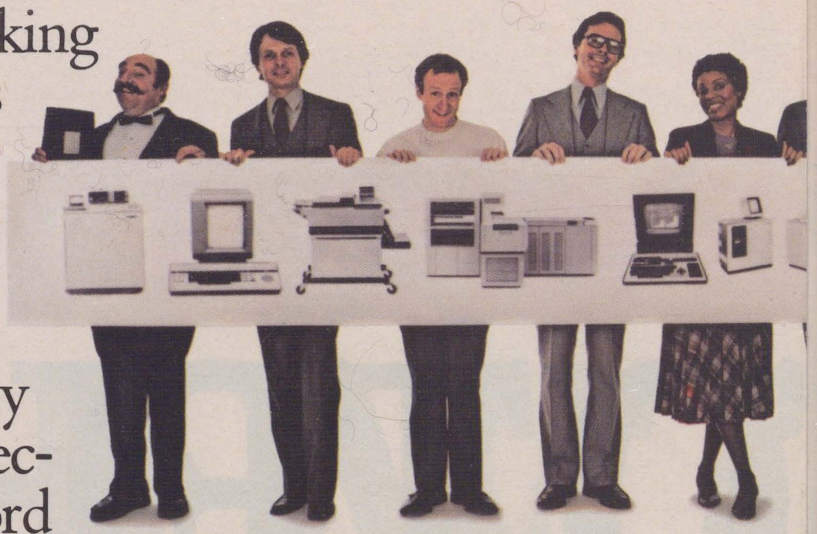

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XEROX

First President's Home: Hostage To Inflation

From old wiring to crumbling walls, time and upkeep costs are taking a toll at Mount Vernon and other hallowed sites across the nation.

George Washington's Virginia home, like dozens of historic shrines across the U.S., faces a crucial period in its struggle to survive.

The reason is that, as Washington's 250th birthday approaches, his Mount Vernon estate is fighting an uphill battle against perils such as fire and decay. Among the problems:

- Much of the famous mansion's wiring dates to the system designed by renowned inventor Thomas Edison in 1922, partly updated in 1941. Running among dry, ancient timbers, the 60-year-old wires present a growing risk of short circuit and fire.
- Twice in the last year, transformers in the aging alarm system have shorted, filling mansion rooms with smoke and sending the compound's single fire truck into action.
- Water mains for firefighting and irrigation of historic gardens are antiquated. Tests show that fire hydrants provide 75 to 100 gallons per minute, compared with the 150 gallons required by modern codes.
- Age is weakening the walls and other features that give Mount Vernon its special status as a trove of architectural history. Only paint holds elegantly embossed plaster above an 18th-century fireplace. Original sandstone foundations, valued as artifacts, are deteriorating, leaving gaping holes.

In better times, these threats could probably be handled through routine outlays for maintenance and improvement, curators say. But today, inflation, recession, reduced tourism and government budget cuts have forced institutions such as Mount Vernon to look for new ways to survive.

As a result, the nonprofit group that runs the first President's home is breaking its 120-year-old tradition of relying almost totally on entrance fees by mounting a campaign to raise 10 million dollars from private donors and businesses. In that market, historic shrines must vie with thousands of institutions scrambling to make up for inflation and government budget cuts.

"No one relishes competing with a hospital that wants a kidney machine to save children's lives," says Mount Vernon's resident director, John A. Castellani. "But when you're running an institution as old and important as Mount Vernon, you can't let even one potentially serious problem get out of hand."

To back up claims of importance, administrators note that the 500-acre estate on the Potomac, downriver from Washington, D.C., is one of the nation's top attractions for tourists and scholars, drawing more than 1 million visitors a year. In addition, its owner, the Mount Vernon Ladies' Association, has pioneered the tradition of rescuing and restoring historic properties since it bought the run-down plantation from a great-grandnephew of Washington's for $200,000 in 1858.

Even so, soaring maintenance costs have outstripped the resources of an organization that has always avoided government funds. Despite a quadrupling of the admission fee over the last 15 years, to $3 for adults, more money is sought for a work force of 100 that tends 42 buildings, acres of gardens and forests, 4 horses, 14 head of livestock, a wharf and Washington's tomb.

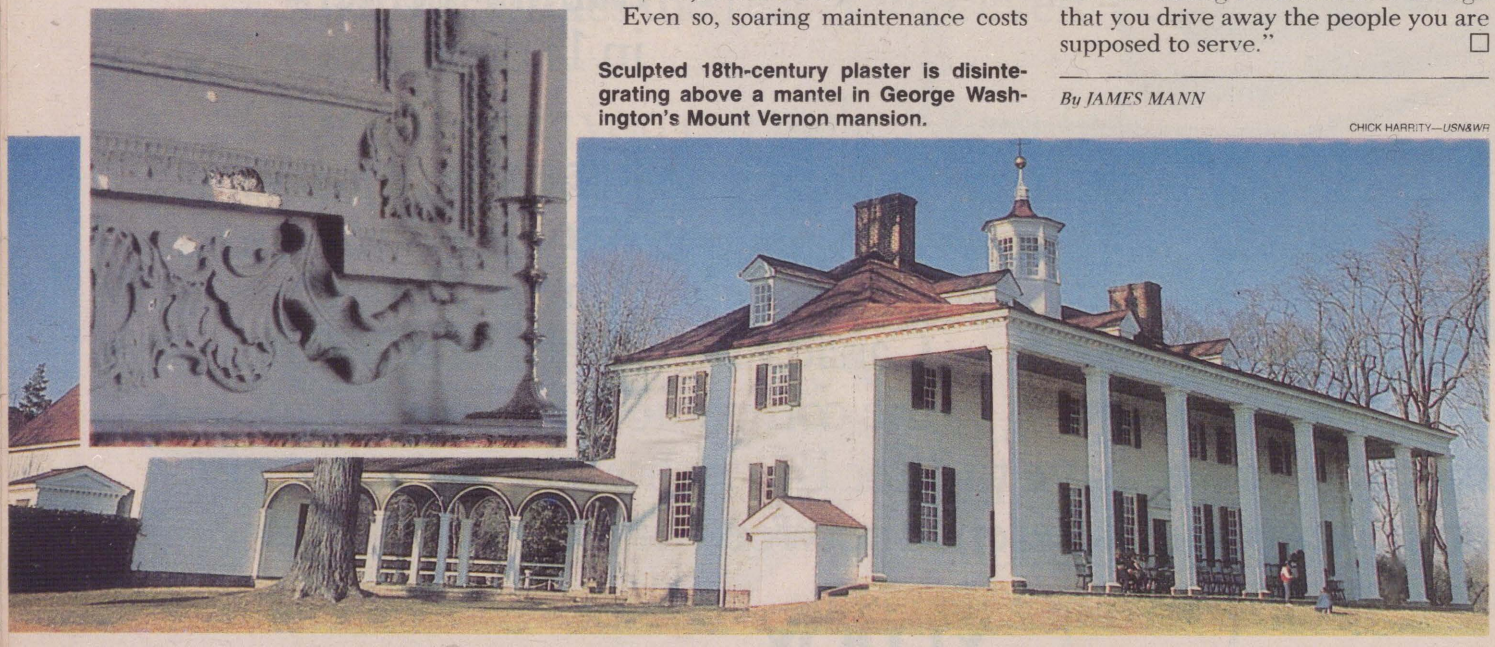
Additional costs are attributed to the delicacy of restoration work. To return the mansion to its original colors, a $35,000-a-year consultant is painstakingly scraping off up to 22 layers of paint and chemically analyzing them with microscopes and spectrographs. Seven painters are working year-round to apply pigments, many of them ground by hand from chemicals dating back to George Washington's time.

Coping with fire. Recently, the chance of a destructive fire in the mansion was reduced by the installation of jets that automatically spew a nonpoisonous flame-snuffing gas. In tests, the clouds filled the house in 9 seconds with such force that rugs were blown about the rooms.

A 2.8-million-dollar library is under construction to house an irreplaceable cache of Washington's historical papers, currently stored in an old fireproof garage. The Ford Motor Company recently donated a new fire engine to replace the 1936 model given by the manufacturer's founder, Henry Ford.

"We've come a long way," says Herbert L. Prevost, buildings-and-grounds superintendent. "But we still have a long way to go." Adds Director Castellani: "Every institution concerned about security and authenticity, from coast to coast, is in the same boat. The dilemma is how to deal with hard times without raising admission fees so high that you drive away the people you are supposed to serve." □

By JAMES MANN



Sculpted 18th-century plaster is disintegrating above a mantel in George Washington's Mount Vernon mansion.

CHICK HARRITY—*USN&WR*

World Business

A FRESH PERSPECTIVE FROM OVERSEAS

BONN • PRETORIA • SYDNEY • SEOUL • TOKYO • BUENOS AIRES • OTTAWA

The world's major economies still are stuck on a slow track. Only a few, notably those in East Asia, display much momentum so far in 1982. Worse--

Mood in business circles often seems even bleaker than markets warrant.

Vast American economy promises no quick lift. That's another worry. And steep U.S. interest rates affect rates abroad, stirring irate howls everywhere.

West German economists see Europe caught in a "washboard cycle," with small ups and downs from one month to the next, conditions varying from country to country--and no change in basic stagnation and worsening mass unemployment.

Within Germany, most experts see 1982 bringing no real economic snapback. Pessimism blankets the country. Growth? Perhaps 1 percent--or a contraction.

Unemployment threatens to set new postwar records. Chancellor Schmidt presses a 5.3-billion-dollar stimulus program despite shaky political base.

On the spending side, there even is talk of a 1 percent pay cut for civil servants--unheard of in modern Germany. Powerful union of metal workers has been asked to take a three-month pay freeze, then only a 3 percent wage hike.

Germans boil over U.S. budget deficit, a drag on global credit, recovery.

Britain's latest business poll turned up slightly greater confidence regarding new orders and industrial output after a setback around Christmas. Economists are beginning to agree with the government that the British economy is slowly, very slowly, pulling out of its dive. But two big concerns remain.

Inflation persists at 12 percent. And just over 3 million Britons are counted jobless--11.5 percent of the work force. The Trades Union Congress puts the real number of those idle at 4 million, demands a 16-billion-dollar reflation program. London balks. Beating back inflation is its top goal.

In Sweden, earlier official forecasts for a 1982 recovery are now deemed far too optimistic. Big worry is that industrial investment may fall as much as 15 percent after 1981's 9 percent drop. Upturn may not come before 1983.

Belgium sets tax cuts, concessions to spur building, work for the jobless.

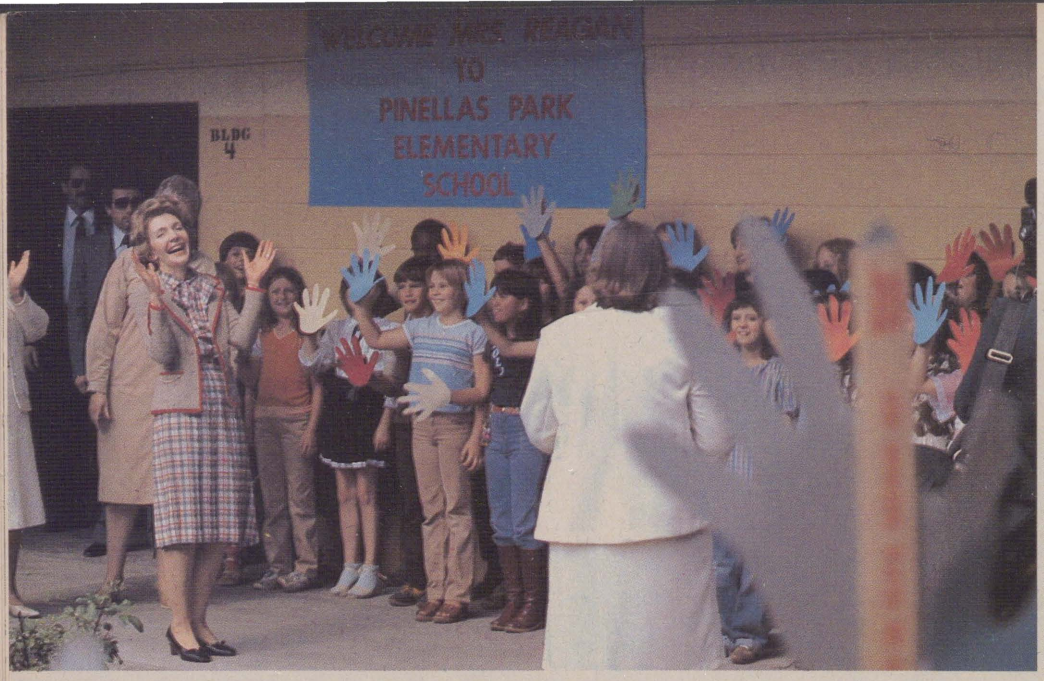
France under a Socialist regime is using clear expansionary policies to increase growth and jobs. According to the Banque de France, there has been a slow improvement on the industrial front since last summer. Consumer spending is reviving. Capital spending is not; nationalization push stirs uncertainty.

Paris is wary of U.S. policies it fears will stunt world economic growth.

Italy's economy is murkier than most; setbacks vie with signs of progress.

Inflation--19 percent--shows no sign of abating. Most large, state-owned

(over)



PHOTOS BY TIMOTHY A. MURPHY—USN&WR

Florida children, altering a show tune, sing "Hello, Nancy" to their visitor.

A "New" Nancy Reagan Steps Out

The First Lady, bent on deflating the idea that she's just a fashion plate, is carving out a role as crusader against an acute social problem.

Stung by critics for being "socially chic" but not "socially useful," Nancy Reagan is going public in an effort to show people that it isn't so.

The First Lady launched a campaign of travel in mid-February designed to draw attention to her work to counter drug abuse among youths—and to convince Americans that "we're in danger of losing a whole generation."

While refusing to acknowledge that Mrs. Reagan's image had become a political liability for the President, her staff rated the trip a breakthrough.

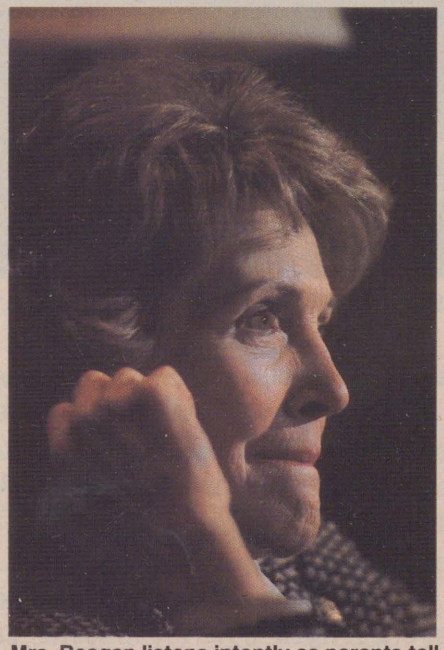
"Super! Fabulous!" declared Press Secretary Sheila Tate of the upbeat press and television treatment the First Lady's 1,655-mile, two-day journey to Florida and Texas received. The trip—four months in the planning—will be followed by a half-dozen similar forays this year.

As insiders tell it, Mrs. Reagan has been "bewildered and hurt" by criticism of her style during the 13 months she has lived in the White House.

She has been chastised by columnists and others for spending 1 million dollars refurbishing the old mansion and buying 220 place settings of china for official entertaining at a time of nationwide economic trouble—though the funds used were private donations.

Her receipt of high-fashion clothes from designers sparked controversy, despite her policy of donating the apparel to museums. On February 16, aides announced that she would no longer accept *haute couture* originals because "she felt it was being misunderstood."

Mrs. Reagan's Hollywood friends, her "overprotectiveness" of her husband, her alleged veto over her husband's appointments, all have provided grist for gossip. In one widely noticed blast, a *Washington Post* columnist rapped her for not being "a caring First Lady," charging that she was "far more interested in being socially chic than socially useful. We had gotten used to something more."



Mrs. Reagan listens intently as parents tell of antidrug activities in Dallas.

Actually, Nancy Reagan is far from the first in her position to draw unkind cuts. Mary Todd Lincoln was castigated for her "shopping sprees." Edith Galt Wilson was accused of "running the country" after her husband was felled by a stroke. Eleanor Roosevelt was charged with meddling too much in government business, while Jacqueline Kennedy was accused of being aloof. Pat Nixon was labeled "Plastic Pat" and Betty Ford was called embarrassingly candid.

A paradox. People's feelings about Mrs. Reagan at times have seemed confused. In one national poll, she topped the list of women most admired by the public, while, in another, 62 percent thought she put too much emphasis on style and elegance.

Still, on her visit to the South and West on February 15-16, the First Lady got rave reviews for displaying grace, charm—and social sensitivity. She was accompanied by 20 reporters, news photographers and technicians, 4 aides, a White House photographer and 10 Secret Service agents.

When youngsters at a drug-rehabilitation center in St. Petersburg told of lying, stealing and threatening family members while addicted, the First Lady wept openly, dabbing her eyes with a handkerchief. She said to the youths and their parents: "We only make this trip through life once, and that once ought to be as wonderful and fulfilling as you can make it."

The following day in Texas, she said the solution to teenage addiction would not come from government but from private initiative and parental involvement. "You give birth to that child, and that child is your responsibility," she told a TV interviewer. To an antidrug group, she said, "You've got me on your side. This is going to be a continuing interest," adding that parents were "scared" and "out there waiting for direction."

Several times on the trip, she spoke of the ability of mothers whose children are on drugs to fight back: "A woman is like a tea bag. You don't know her strength until she is in hot water."

Despite her interest in this problem and her long commitment to aiding

handicapped children through the Foster Grandparents program, some political observers believe the First Lady will have trouble changing perceptions of her as a rich man's wife indifferent to hard times.

As Mary Finch Hoyt, former press secretary to Rosalynn Carter, puts it: "That image, false or not, is pretty difficult to turn around. Mrs. Reagan's larger goals have not been articulated and seem secondary."

In many ways, by the nature of the position, a First Lady is virtually in a no-win role. While Mrs. Reagan has been criticized for not using her influence to promote the social good, Mrs. Carter was stuck with the nickname "Steel Magnolia" and accused of being pushy when she attended cabinet meetings.

Historically, a First Lady is caught in a niche unique to the U.S. political system. Sheila Weidenfeld, who was press secretary for Mrs. Ford, explains: "A First Lady is not elected to office, nor is there a constitutional provision for her. There is no monetary reward. Yet there are tremendous demands on her from the press to fill a public role. The values she stands for are important, and it is a tremendous challenge to communicate them effectively."

A little world. If Mrs. Reagan seems especially vulnerable to criticism, friends say, it is partly because she is such a private person. One former Reagan aide notes, "She has never been a political wife as we think of it. Before he ran for governor and when he was on the speaking circuit, she stayed home. She helped with charity things, but stayed within the security of her world of friends and the ranch."

Longtime associates say Mrs. Reagan's image problems also stem from her devotion to her husband. Ever since her husband's days as California governor, his staff members have leaked word that she was imperious, says one friend, "because they would overschedule him, tug at him, just one more of this, one more of that, one more meeting, one more photograph.

On her plane with the press, the First Lady talks about her plans and says that, for her, 1981 was "a lost year."

She would put her foot down. She had the courage and the good sense to take on anybody."

Another source of animosity: Mrs. Reagan is a stern taskmaster. Self-described as a chronic worrier, she sets high standards for herself—and for others. One White House aide reports that "she gets what she wants. If she says, 'Jump,' you say, 'How far?' Even Mike Deaver hops to."

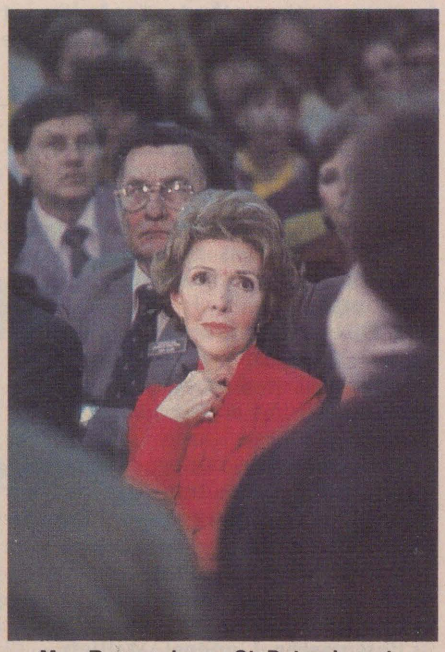
In addition, Mrs. Reagan has had this disadvantage: Among those who have written about her are many reporters of a younger generation—including some who don't share her husband-first dedication to hearth and home.

Even so, after her debut on the road, the "new" Nancy Reagan is described as confident that she can make a positive mark during her White House years. She was heartened when she recently appeared on ABC-TV's "Good Morning America" to discuss drug problems and drew 17,000 requests for more information.

Alluding to the attempt on her husband's life and the Libyan assassination scare that resulted in unprecedented security around the First Family, Mrs. Reagan terms 1981 "a lost year." But now, she says, "I can start to move out." □

By PATRICIA A. AVERY

The First Lady chats with young members of a drug-abuse-prevention program.



Mrs. Reagan hears St. Petersburg teenagers describe drug addiction.

DARRYL HEIKES—*USN&WR*

THOMAS J. O'HALLORAN—*USN&WR*

Efforts to modernize include more automation in mail-distribution centers, left, and introduction of E-COM, above, a new computer-based message system.

Postal Service Strikes Back at Competitors

Electronic communication, discounts for big users, an automation drive—all are part of the mail system's campaign to stay afloat.

A decade after Congress put it on the path toward operating as a private business, the U.S. Postal Service is at last showing signs of doing just that.

Pressed on all sides by competitors ranging from door-to-door couriers to those offering the latest in electronic communications, the nation's biggest mail handler is taking steps to meet the challenge, including—

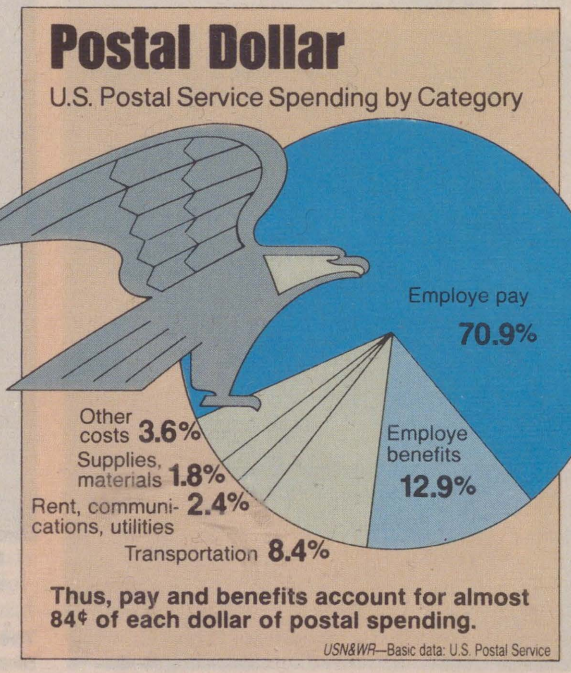
- Developing new ways to flash electronic mail around the world.
- Launching a billion-dollar modernization program to speed handling.
- Scrapping or changing dozens of regulations that discouraged businesses from using the Postal Service.
- Discounting rates for high-volume mailers to grab a bigger share of the lucrative advertising and promotional trade.

To raise more money, officials are considering renting space to advertisers on delivery trucks and post-office walls. Consumers might even get an advertising pitch on the backs of stamps they put on letters.

Postmaster General William Bolger insists that "reports of our organization's death are premature," despite operating deficits, budget-busting labor costs and phasing out of federal subsidies that this year will total 835 million dollars.

Although the operating deficit for the year ending Sept. 30, 1981, was 588 million dollars, Bolger anticipates that, with inflation slowing, the Postal Service will show a budget surplus in 1982 and at least break even in 1983. Still, a 5-cent hike in the cost of mailing a letter will be needed by 1984 to stave off the red ink.

The latest move in the drive to put the agency on a profit-making track is Electronic Computer Originated Mail, or E-COM, a 40-million-dollar effort by postal officials to enter the fast-growing electronic-message market.


Postal Dollar
U.S. Postal Service Spending by Category
Employe pay 70.9%
Employe benefits 12.9%
Transportation 8.4%
Rent, communications, utilities 2.4%
Supplies, materials 1.8%
Other costs 3.6%
Thus, pay and benefits account for almost 84¢ of each dollar of postal spending.
USN&WR—Basic data: U.S. Postal Service

Launched January 4, E-COM allows customers to transmit bills, company messages or accounting information for delivery anywhere in the continental U.S. within 48 hours. Some 100 E-COM customers already are sending messages from their computers to computers in 25 post offices equipped for the service. The messages are printed, put into envelopes and addressed, then delivered by regular mail carriers.

Currently, the service is limited to two-page messages sent in groups of 200. It costs 26 cents for the first page and 5 cents for the second. That narrow range of service falls short of what is now being offered by such competitors as Satellite Business Systems and General Telephone & Electronics, which use satellites to send as many as 30 typewritten pages for as little as a dollar a minute.

However, the Postal Service sees E-COM as an important step into the booming electronic-communications market, now a 450-million-dollar-a-year business. The National Research Council estimates that, by the year 2000, electronic mail could account for 25 percent of all first-class mail. Since about half of all first-class mail is bills, E-COM is viewed as an attempt to prevent the loss of that business to new services, such as home computers, that will allow consumers to pay bills without using the mails.

E-COM follows two other electronic services that are already on line: Mailgram, a joint venture with Western Union, and INTELPOST, an international overnight-message service that was launched in 1980. Mailgram, started in 1978, grew by 10 percent last year, bringing in more than 15 million dollars in revenue. INTELPOST, which is blocked by Federal Communications Commission rules

from operating in the way it had planned, must use Canadian facilities to transmit messages overseas.

Other types of rapid-delivery services also are expanding. Last year, the Postal Service's Express Mail, begun in 1977, grew by 36 percent, accounting for 270 million dollars in revenue. For $9.35, Express Mail guarantees overnight delivery. In 1981, Express Mail volume increased by nearly 5.5 million pieces, while its major private competitor, Federal Express, grew by only 4.5 million pieces. It was a 28 percent gain for Express Mail from the 1980 level.

As lucrative as the priority-mail market is, postal officials are not abandoning traditional services, such as parcel post and door-to-door delivery, a market that in recent years has been drifting increasingly to private competitors.

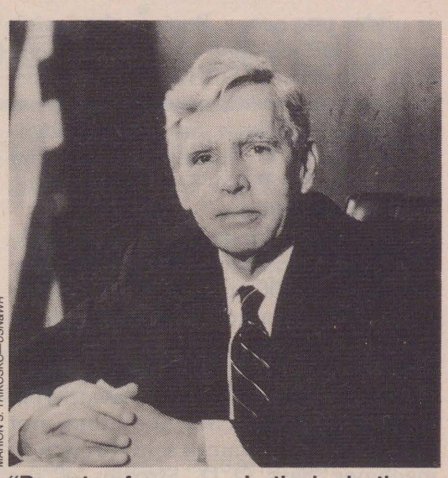
Tough rival. United Parcel Service of Greenwich, Conn., still poses one of the biggest threats to the Postal Service. UPS delivered 1.5 billion packages last year, compared with only 200 million for the Postal Service. Yet that advantage is not as great as it seems. The Postal Service does not count as parcels many items that UPS puts in that category, such as books, overnight letters, computer memory discs and audio cassettes. When those are added in, the Postal Service delivers nearly as many parcels as does UPS.

In addition, the Postal Service a year ago began offering a 14-cent discount on locally delivered packages, a move that could hurt UPS's dominance in that market. A 5-pound package that used to cost $1.78 to mail now costs only $1.64, slightly less than what UPS charges. Says Robert E. Smith, a UPS vice president: "We are concerned about when we will no longer be able to compete."

The Postal Service also is trying to win back some of the business it has lost to door-to-door delivery of advertising circulars and other such mail.

For high-volume mailers who sort business mail or circulars before sending them to a post office, the agency now offers a discount of 4 cents off the normal 20 cents for first-class mail. The third-class bulk rate for those who presort has been lowered from 45 cents a pound to 42 cents. When mailers presort according to ZIP code, and sometimes even down to an individual carrier's route, all mail handlers have to do is weigh the mail and direct it to the proper post office. This approach cuts 12 handling steps from the process, which often involves up to 27 steps.

Such discounts have played a big part in boosting business. From 1976 through September, 1981, first-class mail volume grew by 7.1 billion pieces, with presorted accounting for all but 600 million pieces of the gain. In third-class mail, which includes circulars and other advertisements, volume has increased 22.2 percent since discounts for presorting were instituted in 1978.



MARION S. TRIKOSKO—USN&WR

"Reports of our organization's death are premature," says postal chief Bolger.

High-volume mailers say that the Postal Service can anticipate getting even more business. Says Lee Epstein, chairman of the Third Class Mail Association: "They provide a national delivery service. There's also the matter of reliability. With some private services, you're never sure whether 1,000 circulars wind up in the sewer."

Besides giving discounts, the Postal Service has slowed rate increases for third-class and second-class mail, eating into the big leads that competitors had opened with door-to-door delivery.

Meredith Corporation, which publishes *Better Homes and Gardens*, uses private firms to deliver the magazine to 500,000 subscribers. Now, says Robert Inhofe, Meredith's distribution director: "The Postal Service has met that competition. We are nowhere near as far along in private deliveries as we would have been had not the Postal Rate Commission recognized the competition."

In just the last two years, says Inhofe, the company's cost of using second-class mail has come down from 19.3 cents to 16 cents an item, while the cost for private delivery service has risen from 8 cents to about 16 cents.

Postal officials also have revised scores of regulations to compete with door-to-door delivery services. Publishers now can insert advertisements and even bills into each magazine.

The roughly 400 small firms that deliver shopping guides are beginning to feel the pinch from recent changes in third-class mail rules. For example, it is now permissible for several advertisers to mail their separate messages togeth-

"Ouch!" Yell Nonprofit Users

The Postal Service's drive for profits is causing big headaches for nonprofit organizations, which will face millions of dollars in added mailing costs this year.

Because of a rate hike effective January 10, churches and charities must pay 2.1 cents more for each piece of third-class mail sent out.

For the March of Dimes, this means an added expense of 2.1 million dollars during 1982. "That money won't be available for research and the prevention of birth defects," observes Clyde E. Shorey, Jr., the charity's vice president for public affairs.

Catholic Charities' postage bill is expected to soar by 14.7 million dollars, the American Lung Association's by 2.3 million and Easter Seal's by 2 million.

Publications, too. Magazines published by nonprofit groups face higher costs for second-class mail. Those rates were hiked by 3.6 cents per piece in January, plus added poundage charges for bulk mailings. Affected are such publications as *Christian Century, National Geographic, Columbia Journalism Review* and *Smithsonian* magazine. Consumers Union of U.S., Inc., which publishes *Consumer Reports*, says that its postage costs will climb from 4 million dollars to more than 6 million in 1982. Officials of *American Legion Magazine*, faced with an increase of 1.1 million dollars in charges for second class, are switching to slower, third-class delivery. Still, their mailing costs are expected to climb by $400,000.

Adds Charles Post, business manager of *Columbia Journalism Review:* "Small publications provide intellectual ferment for the country, and now they will have a harder time surviving."

In response, the Postal Service says that increases were needed because of a 186-million-dollar reduction in federal postal subsidies voted by Congress at the request of the administration.

Many in the nonprofit sector also blame the White House. The argument: They are being hamstrung by higher rates at the very time when the President is calling on them to help fill the void created by federal budget cuts.

er under one cover. Business losses following that change have forced one firm, Advertisers Distribution Services in Cambridge, Minn., to cut salaries and lay off workers. Says ADS's chairman, George W. Johnson: "Predatory pricing by the Postal Service is driving out the competitors."

Other small competitors also are taking lumps. The Postal Service is squeezing out the 4,500 private stamp vendors by installing stamp machines in drugstores and supermarkets, as well as self-service postal stations in shopping malls.

No markup. Unlike the private vendors, the Postal Service does not charge extra for stamps sold through its machines. Says O. D. Strozier of the National Association of Postage Stamp Vendors: "How do you compete with a producer who does not pay taxes and who retails at cost the same product you are selling in the same location?"

Threatened, too, are firms that rent private mailboxes for about $85 a year—a service that had swelled beginning in 1978 because of long waits often required to get a post-office box.

Anthony De Sio, a Californian who owns one of the 2,000 private mail-receiving stations, says that the Postal Service is speeding up construction of remote postal-box offices and charging far less than its private competitors—usually about $20 a year. Last June, after De Sio's Oceanside, Calif., mail office had been open for six months, the Postal Service opened a substation two blocks away in a bakery.

The Postal Service has been even tougher on people who try to enter the area of first-class mail delivery, where it has a legal monopoly. No private individual is known to have entered that business since a federal judge in 1978 forced Patricia and J. Paul Brennan to stop their delivery service. The couple hand-carried mail for 10 cents a letter to more than 150 lawyers in Rochester, N.Y., for nearly two years.

These moves against the private competition, along with other changes, point to a better future than many experts have been predicting for the Postal Service.

Mail volume continues to climb despite four rate hikes in five years. The 110 billion pieces, in all mail classes, handled in the year ending last September 30 was 4 billion more than the 1980 level. What's more, a decade-long automation drive has allowed the Postal Service to handle 30 percent more pieces of mail with 71,000 fewer workers.

New technology could bring even bigger gains in productivity. In the wings are electronic scanners to be used in conjunction with a nine-digit ZIP code, which is to be introduced in 1983—unless Congress blocks it. Scanners will read addresses electronically and trigger a device that will print a bar code on the envelope similar to the code now found on nearly every supermarket product. This billion-dollar automation program is expected to be completed by 1987, although the bar codes are to begin showing up on some mail by the end of this year.

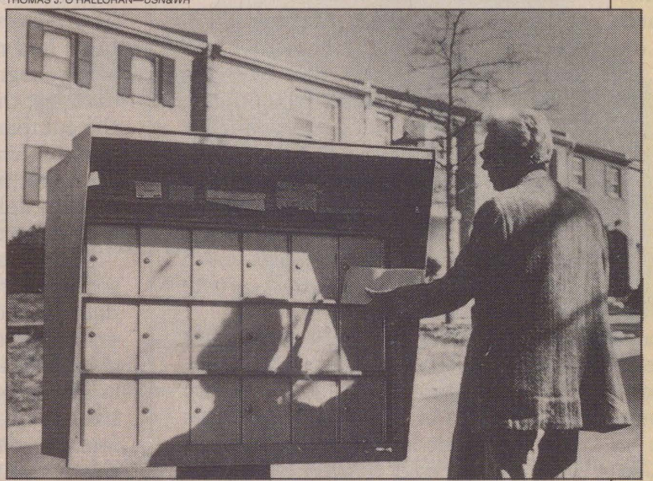
Innovations are vital, authorities say, to solve the service's most staggering problem: Soaring labor costs. Salaries and benefits for the 670,000 postal workers totaled more than 18 billion dollars last year, or almost 84 percent of operating expenses. Cost-of-living raises will take the average postal salary from $19,000 now to nearly $30,000 by 1984, unless inflation slows significantly.

That problem is compounded by the administration's plans to phase out all postal subsidies by 1984. Warns Michael Cavanaugh, a Washington, D.C., consultant: "There will have to be fewer postal workers. Within the next dozen years, the Postal Service will face the most significant crisis of its history."

Postal officials are determined to meet the challenge with moves to cut the labor force, ranging from use of new technology to installation of cluster mailboxes in new housing developments as a substitute for door-to-door service. Says Postmaster General Bolger: "The Postal Service, which has been in business for 206 years, has many more decades—maybe even centuries—left in her." □

By RONALD A. TAYLOR

THOMAS J. O'HALLORAN—*USN&WR*



In the future, many more families will get their mail in cluster boxes designed to cut delivery costs.

When the Mail Doesn't Go Through

While the nation's biggest mail carrier scrambles to meet the competition, its customers seem as disgruntled as ever.

Examples abound of service delays, errors in delivery, lost mail and surly postal clerks.

Congressional candidate Daniel Defosse of Antioch, Ill., was told he would meet the January 4 filing deadline for the March primary if he would pay $9.35 to send his nomination petitions by Express Mail. But the petitions, mailed two days before the deadline, failed to reach the capital of Springfield, only 250 miles away, in time—despite the money-back guarantee of overnight delivery. Now Defosse must campaign as a write-in candidate.

"Free" service? Express Mail also failed Thomas Stauffer, a Reston, Va., businessman, several times. Says Stauffer: "Do you want to know how to send a letter postage free? Send it Express Mail."

Others complain about first-class mail service. Robert D. Fleischer, a Morris Plains, N.J., manufacturer, says delivery of letters to three of his salesmen recently took 10 days. A Pennsylvania woman reports that valentines mailed to people 240 miles away got there sooner than the ones she sent just down the street.

Customers also point to long lines and rude clerks. Frustrated patrons accounted for most of the 123 assaults on clerks in 1981.

Unrest is expected, too, in new subdivisions where mail is delivered to cluster boxes instead of door to door. Designed to reduce the number of mail carriers, centrally located cluster boxes can hold mail for 18 households.

Despite these criticisms, the most recent Postal Service figures show that, after slumping since 1977, delivery times are beginning to improve.

Complaints are to be expected in a system that handles more than 300 million items a day, says Postmaster General William Bolger. He insists that errors occur in less than 1 percent of all deliveries, yet customers "tend to forget the mail they get on time."

U.S. Business

TRENDS THAT SHAPE THE FUTURE

2300 N Street, N.W.
Washington, D.C. 20037

The cost of using credit cards is escalating again.

Issuers of many cards are boosting existing fees or adding new ones.

Banks used to give away MasterCard and Visa cards. Now most assess an annual fee. First Interstate Bank of California is imposing a new $15 levy. Citibank in New York is raising an existing $15 fee to $20.

One result: People are carrying fewer cards though charging more on the ones they keep, says H. Spencer Nilson, publisher of a credit-card newsletter.

Finance rates on unpaid balances are also being hiked. First National Bank of Chicago charges 19.8 percent, up from 18 percent. First Pennsylvania Bank in Philadelphia raised from 15 to 19.8 percent its rate on cash advances.

Oil firms are taking a sterner look at their cards. Amoco is testing fees of $6 to $20 in some areas, with added benefits as a bonus. Texaco and others are hitting dealers with new processing charges for credit sales.

Exxon, which recently raised its top finance charge to 21 percent, is encouraging dealers in a pilot project in Phoenix to offer discounts for cash.

Still, oil firms worry about offending credit-card customers now that gasoline is in oversupply, says Nancy Koran, editor of "Oil Express."

Signs of dreary business conditions abound. A hike in the prime rate on February 17 to 17 percent is only part of the story. Also--

Factory output fell in January at the steepest rate since May, 1980, which was during the depth of the previous recession.

Business failures in early February, as counted by Dun & Bradstreet, hit the highest weekly total since the Depression.

Housing starts remain crunched at an annual rate well below 1 million units and in January were 44 percent lower than a year ago.

Foreign investment in U.S. manufacturing fell in 1981 for the second year in a row, reports the Conference Board. No signs, yet, of a turnabout.

Toy makers don't expect the recession to slow sales of videogames.

Wholesale shipments could hit 2.5 billion dollars in 1982, more than twice that of 1981, said executives at the recent American Toy Fair in New York.

Even Monopoly goes space age. A new electronic-control unit "rolls" dice, plays tunes, keeps track of tokens and springs surprises on players.

But nonvideo playthings may face rough going. Some experts expect general toy-and-game sales to be unchanged from last year's 5 billion dollars.

Sporting-goods firms are counting on a continuing fitness craze to boost

(over)

sales of exercise items by about 15 percent this year. That's triple the growth rate expected for all sporting-related goods.

Especially popular: Exercise bicycles. One model shown at the industry's latest trade show in Chicago electronically keeps track of calories burned.

Falling in popularity last year: Roller skates, billiard tables.

Farmland is losing its luster as agricultural earnings falter.

Disappearing are the heady gains of recent years when, even after adjustment for inflation, farm prices surged 9 percent annually.

The outlook now: "Significantly less appreciation in land values in the 1980s," says A. Gary Shilling & Company, an economic consulting firm.

In some areas, outright declines in land prices have been reported.

Concern is growing that some hard-pressed farmers will find credit even tougher to come by as their principal asset, land, turns less secure.

Farm profits in '82 are likely to dip to the lowest level since 1971, says Chicago's Continental Bank. Revenue will grow, but expenses will rise faster.

Fueling the woes: Large harvests, spiraling interest rates, weaker markets because of recession at home and abroad.

Feeling the pinch, too, are makers of farm equipment. The 1982 forecast of the Farm and Industrial Equipment Institute: "A fairly stagnant market."

It's becoming more lucrative to serve as a corporate director.

The typical compensation of outside directors at manufacturing firms jumped 30 percent between 1979 and 1981, according to the Conference Board. Latest median compensation at large manufacturers: $25,000.

To sweeten the pot, more companies offer extras such as health-and-accident insurance and company matching of charitable contributions.

But insiders who serve as directors don't share in the gains. Only 12 percent of the firms surveyed pay their own executives for being directors.

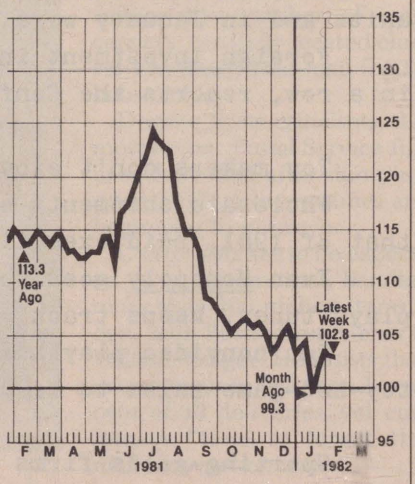
Our index of business activity dropped in the latest week.

Plus & Minus®

USN&WR WEEKLY INDEX OF BUSINESS ACTIVITY

WEEKLY INDICATORS (1967=100)*	Year Ago	Month Ago	Week Ended Feb. 6	Week Ended Feb. 13
Composite Index†	113.3	99.3	103.1	102.8
Steel production	91.7	66.5	67.9	68.6
Auto production	68.5	41.8	44.3	42.8
Crude-petroleum production	95.9	99.5	97.5	97.5
Electric-power production	198.4	198.9	202.6	199.5
Lumber production	93.8	66.2	69.1	69.1
Freight carloadings (misc. mdse.)	68.1	53.2	58.1	60.4

MONTHLY INDICATORS (1967=100)	Year Ago	Month Ago	Latest	For
Consumer prices, goods and services	258.4	280.7	281.5	December
Producer prices, finished goods	260.9	275.3	277.4	January
Industrial production*	151.4	143.4	139.1	January
Retail-store sales*	350.1	356.6	352.8	January
Civilian employment*	134.3	133.9	133.9	January



*Seasonally adjusted.

† Includes, besides the six series listed, production of trucks, bituminous coal and paperboard.

A Global Trade War On the Way?

Japan blocks out foreign aluminum. Europe subsidizes food exports. The U.S. talks of fighting back. It's a free-for-all that's spreading.

Danger is mounting of a multibillion-dollar trade war that could cut U.S. sales abroad and boost prices Americans pay at home.

Country after country is putting up barriers against imports and subsidizing exports, American policymakers say. Europeans and Japanese, for their part, are complaining that Washington is guilty, too.

"Around the globe, calls for protectionism are louder and more shrill than they have been in 50 years," says U.S. Trade Representative Bill Brock.

Even in the U.S., the cries are getting louder. As domestic firms lose sales to foreign competitors, members of Congress, labor unions and businesses are demanding retaliation. "It makes no sense whatsoever for our nation to be operating under principles of free trade when many foreign countries are erecting barriers at every turn," says Representative James J. Florio (D-N.J.).

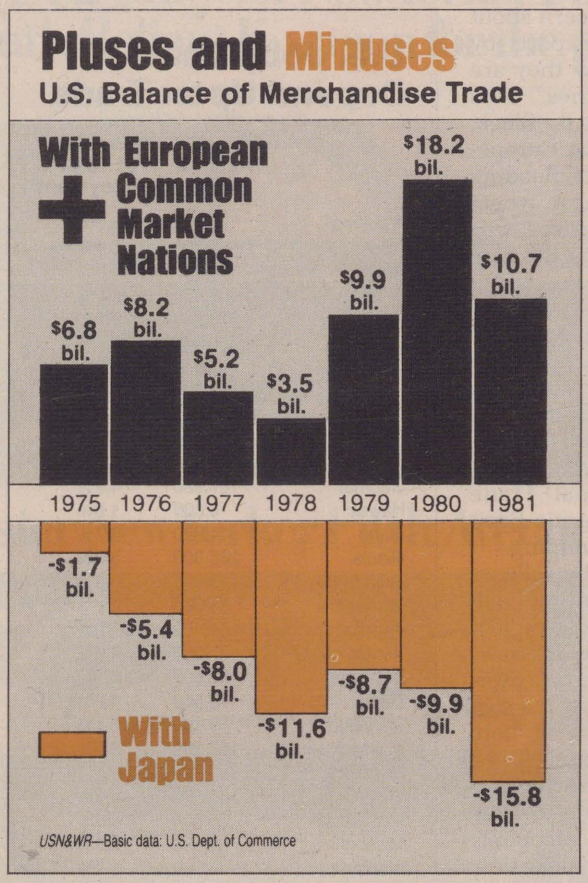
Increasingly in Congress and within the Reagan administration there is talk of "reciprocity"—putting up import barriers to countries that are closing their markets to the U.S.

Mounting trade imbalance. Behind all the tough talk is a huge U.S. trade gap with the rest of the world. Last year, the U.S. imported 39.7 billion dollars' more goods than it exported, and the deficit is expected to be even bigger in 1982.

"The U.S. competitive position is being challenged as never before," says Secretary of Commerce Malcolm Baldrige. "The long-term effects on our national security and our international influence could be severe."

The impact of U.S. trade woes on American workers is showing up clearly. The Labor Department certified 28,000 persons as eligible for relief because their jobs were eliminated by sales of imports last year. The Census Bureau estimates 4.8 million U.S. jobs depend upon exports of goods and related services.

Right now, U.S. anger is directed mainly at Japan, which over the years has become a major supplier of autos, television sets, motorcycles, stereos, steel and hundreds of other products. Japan's sales to the U.S. this year are expected to exceed its purchases of American goods by more than 20 billion dollars.



"The Japanese are closing out U.S. imports, and they are mounting an export drive in certain areas where they flood the markets," complains Lionel Olmer, under secretary of commerce for international trade.

The Japanese do not mind selling products below cost, he contends, because they are more interested in full employment than profits. One example is Japan's rapid growth in production of computer-memory chips, to the point where it already has grabbed 70 percent of the U.S. market for one of the newest types of chips. "The price is driven down until one must look and wonder whether it represents fair trade," Olmer says.

U.S. laws require higher tariffs when another country injures American firms by "dumping" surplus products in the U.S.—selling them below what is determined to be a fair value. But U.S. manufacturers complain that dumping suits are time-consuming and that they often have to depend on foreign data to determine the fair value.

Most threatened by Japanese producers is the American auto industry, which has watched as the Japanese share of the U.S. market has grown from 9 to 22 percent in six years. The U.S. persuaded the Japanese to limit their exports of Toyotas, Hondas, Datsuns and others to this country to 1.68 million cars in 1981, but recession-hit auto makers are talking about a lower quota this year. Ford Chairman Philip Caldwell went further in a Tokyo speech February 9 when he appealed to Japanese manufacturers to make more of their cars in the U.S., thus subjecting them to many of the higher operating costs that American firms must pay.

One reason that the Japanese cars are so popular here, claims Brock, is that they have a built-in cost advantage. Lower wages and taxes in Japan make the average car of the same quality $1,800 cheaper to produce in Japan than in the U.S., he contends. The Japanese charge a 20 percent excise tax on all cars, but that tax is rebated to Japanese auto makers, he says.

Controlling supply. It is such favoritism to Japanese firms that particularly rankles Washington. The Japanese have driven up the cost of U.S. steak in their own country from $4 to $18 a pound by limiting beef imports. Other quotas limit sales of American oranges, milk and leather.

Under pressure of world recession, Japan also is putting up a new system of aluminum tariffs that will protect its industry from U.S. competition. The Japanese say the measure is justified because the industry is distressed.

U.S. officials have been even more critical about a variety of nontariff barriers that keep out imports of such U.S. goods and services as cigarettes, sporting goods, health-care products, alcohol, investments and insurance.

Reacting to complaints, the Japanese government announced on January 28 that it would eliminate or reduce 67 of

99 such barriers, but U.S. officials say that did not go far enough. Washington is considering tough measures, such as limiting Japanese imports or filing complaints under the General Agreement on Trade and Tariffs, a basic international trade pact.

American ire is turning also toward Europe. "There is grave concern about the growth of agriculture exports by European countries and how they are subsidized by their treasuries," says Agriculture Secretary John R. Block. Specifically, Block accuses the European Economic Community of flooding world markets with pasta, sugar, wheat and other products at low prices. U.S. officials are considering taking this case to the GATT ministers.

There is friction, too, over the 66.8 percent increase in European steel sales to this country in 1981. American steel firms have filed more than 100 antidumping complaints, urging that Europeans pay higher tariffs. The cases moved a big step forward February 18, when the U.S. International Trade Commission ruled that domestic firms probably were injured by dumping.

The complaints signaled the collapse of the "trigger-price mechanism," a 4-year-old system that all sides accepted as a way to assess penalties for steel sold below cost in this country. Steel analysts said the breakdown was a sign of frustration over recession in both the United States and Europe.

European labor unions are increasing pressure on governments to keep jobs from disappearing as the economy there worsens. U.S.-based multinational firms complain of moves now under way in the European Common Market that could force them to consult with unions before moving a plant and that could make company officers liable for actions that cost Europeans jobs.

The U.S. is taking its lumps from its neighbor Canada, too. U.S. oil companies complain that under the Trudeau government's "Canadianization" policy, they are forced to sell their holdings. Foreign companies are not allowed to extract oil on federal lands and the Canadian government heavily subsidizes exploration by domestic oil businesses. Other firms fret that a Canadian review board lets in only foreign investors judged to be of "significant benefit" in providing jobs and business to Canadian suppliers.

Cloth push. Another threat, in the view of U.S. officials, comes from the world's developing countries. They have quintupled exports to the U.S. in the last 10 years. The U.S. and Europe are threatening to tighten import quotas on textiles from South Korea, Taiwan and Hong Kong, among others.

With trade worries arising from all directions, members of Congress are moving fast to do something. One approach widely backed is a "reciprocity" measure introduced by Senator John C. Danforth (D-Mo.) and 11 others on February 10. The bill requires the administration to measure the impact of foreign-trade barriers on the U.S. The President would then propose counteractions by the U.S. if the barriers were not removed.

The Reagan administration has not formally endorsed the idea of reciprocity but plans to use threats of such legislation to pressure other countries to drop their barriers.

Some trade experts fear that attempts at reciprocity may run counter to international treaties. Says William R. Cline, senior fellow at the Institute for International Economics in Washington: "When you start down the route of retaliating for things you think are unfair, you invite other countries to start retaliating against you because they may think something you are doing is unfair."

What's more, by keeping out lower-cost goods from abroad, the U.S. could add to inflation at home because American manufacturers would face less competition.

Dollar blamed. Foreign critics say that some of the U.S. trade woes are its own fault. For one thing, the 18 percent jump in the value of the American dollar in 1981 has made imports relatively cheap here and U.S. exports too expensive for foreigners.

The Japanese claim that the U.S. isn't aggressive enough in promoting exports. They charge that U.S. auto makers, for example, will sell them only cars with the steering wheel on the left side, even though the Japanese drive on the opposite side of the road from Americans. U.S. firms explain that demand in Japan is not strong enough for them to build cars differently.

Americans have their own protectionist barriers, too, say experts:

- Consumers for World Trade, a Washington trade group, estimates that the public is paying 2.7 billion dollars a year in higher clothing costs because of the 29.3 percent average tariff on apparel imports.
- Under the Buy American Act, U.S. firms are favored over foreigners in government contracts.
- The American Retail Federation says U.S. stores ran out of wool sweaters last fall because of an embargo on sweaters from China.

Some officials hope that business recovery later this year will reduce protectionist pressures. Yet Brock warns: "The choices we make in 1982 are pivotal for the future of the world economic order.... We cannot blindly hope that a world economic upswing in the near future will allow these decisions to be avoided." □

By MICHAEL DOAN

U.S. Jobs That Depend Upon Trade

	Trade-Related Jobs	Percentage of Total Employment
Alabama	70,800	5.0%
Alaska	5,700	3.4%
Arizona	47,400	4.5%
Arkansas	38,000	4.4%
California	518,000	5.1%
Colorado	46,500	3.4%
Connecticut	107,900	7.2%
Delaware	14,200	5.5%
District of Columbia	4,800	1.6%
Florida	141,700	3.9%
Georgia	107,900	4.9%
Hawaii	6,800	1.8%
Idaho	14,300	3.7%
Illinois	285,800	5.8%
Indiana	143,800	6.3%
Iowa	56,600	4.2%
Kansas	44,400	4.0%
Kentucky	57,300	4.0%
Louisiana	52,600	3.4%
Maine	18,500	4.2%
Maryland	59,100	3.1%
Massachusetts	157,300	6.0%
Michigan	237,000	6.6%
Minnesota	85,100	4.2%
Mississippi	36,800	4.0%
Missouri	90,500	4.3%
Montana	5,900	1.7%
Nebraska	19,800	2.7%
Nevada	5,500	1.6%
New Hampshire	23,600	5.8%
New Jersey	176,900	5.5%
New Mexico	7,900	1.6%
New York	377,100	5.2%
North Carolina	154,600	6.1%
North Dakota	6,300	2.2%
Ohio	298,900	6.6%
Oklahoma	44,300	3.5%
Oregon	58,700	5.1%
Pennsylvania	285,500	5.9%
Rhode Island	30,600	7.5%
South Carolina	79,000	6.2%
South Dakota	6,400	2.0%
Tennessee	94,100	5.1%
Texas	267,200	4.4%
Utah	17,900	3.1%
Vermont	10,800	4.8%
Virginia	91,900	4.0%
Washington	114,100	6.7%
West Virginia	28,600	4.3%
Wisconsin	119,800	5.7%
Wyoming	2,800	1.3%
United States	**4,778,900**	**5.0%**

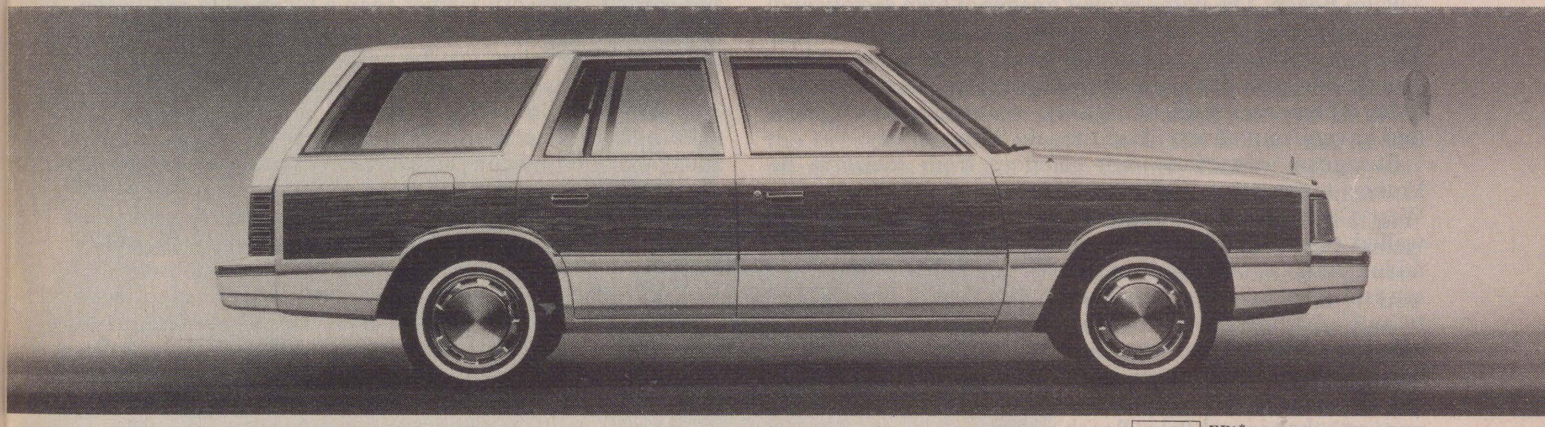
Note: Employment figures are for manufactured exports only.

USN&WR—Basic data: U.S. Dept. of Commerce

His and hers for the price of theirs.

You can get a 1982 Chrysler New Yorker Fifth Avenue and a 1982 Plymouth Reliant K wagon for the price of a Seville.

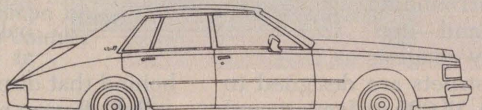
$13,038† Chrysler New Yorker Fifth Avenue 26 EST. HWY. 17 EPA* EST. MPG



$8,101† Plymouth Reliant K Wagon 40 EST. HWY. 26 EPA* EST. MPG

Compare with Seville. Fifth Avenue includes all these features at $13,038.

• Automatic Transmission • 318 CID V-8 Engine • Air Conditioning • 60/40 Leather and Vinyl Seats (or Cloth) with Passenger Recliner • Padded Landau Vinyl Roof • Wire Wheel Covers • Automatic Speed Control • Tilt Steering Column • AM/FM Stereo Radio • Premium Speaker System • Power Antenna • Power Deck Lid Release • Power Door Locks • Power Front Disc Brakes • Power Seat, Left • Power Steering • Power Windows • Electronic Rear Window Defroster • And 32 More Features



1982 Cadillac Seville: $23,433†

Reliant SE Wagon includes all these features at $8,101.

• 2.2 Liter Overhead Camshaft Engine • 4-Speed Manual Transaxle with Integrated Overdrive Fourth Gear • Front-Wheel-Drive • Woodgrain Exterior Appliques • Power Front Disc Brakes • Power Rack & Pinion Steering • Center Armrest Seat • Adjustable Headrests • Cloth Upholstery • Cloth Headliner • Digital Clock • Halogen Headlamps • Remote Outside Mirror • AM Radio • Cargo Area Carpeting • Deluxe Wheel Covers • Luxury Two-Spoke Steering Wheel • Concealed Two-Speed Wipers

New Yorker Fifth Avenue costs less than other luxury cars comparably equipped:

Car with comparable equipment	You Save
Buick Electra Park Avenue $15,085†	$1,914
Oldsmobile Ninety-Eight Regency Brougham $14,647†	$1,609
Cadillac Sedan DeVille $17,898†	$4,727
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'82 Reliant SE Wagon $8,101†

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†Base sticker price excludes taxes, title and destination charges. Reliant WSW tires $58 extra. *Use EPA estimated MPG for comparison. Your mileage may vary depending on speed, trip length and weather conditions. Highway mileage probably lower. New Yorker Fifth Avenue Calif. est. hwy. 25, EPA est. MPG 16. Reliant SE Wagon Calif. est. hwy. 36, EPA est. MPG 24. Ask about the optional 5 year/50,000 mile Buyer Protection Plan. ◆Not applicable on New Yorker Fifth Avenue.

Palm Beach: The Sober-Sided Fantasyland

Signs of affluence still abound in southern Florida's society spa—but longtime observers see less flamboyance in recent times as the superrich try to preserve their place in the sun.

C. J. WALKER

The late Marjorie Merriweather Post's showcase palace. Mar-a-Lago, with 110 rooms, is for sale at 20 million dollars.

PALM BEACH, Fla.

There is a time when an island paradise becomes a prison. It can happen here in a moment: A code-red signal. All three drawbridges to the mainland go up. Squad cars race southward to cut the coastal road. Suddenly, strangers are suspect.

That maneuver is being quietly practiced and refined in a town that boasts more police officers per capita than anywhere else in the United States. This is one place all too aware of its potential as a target for thieves and kidnappers.

Palm Beach. The name evokes images of high society and high jinks, playboys and polo, dowagers in diamonds and palaces in pink. For nearly 100 years it has been a playground for America's princes of privilege. It still is, but today it conveys a sense of sobriety, of being the last embattled haven from all the ills of the late 20th century.

European aristocrats—rich refugees from socialism in France, terrorism in Italy, Soviet pressures on West Germany—are buying up many of the walled castles that make this sliver of sand a fabled pinnacle of capitalism. Winter residents are said to include Romanian and Italian royalty and a baron of the German Krupp family. Many are relieved that foreign reinforcements have arrived, counting on their purchase of old mansions to stave off the march of condominiums that crowd Palm Beach's borders.

It is the crush of common folk in southeast Florida that is the greatest threat to the town's elegance. In the past decade, the surrounding county of Palm Beach—on the mainland—doubled to nearly 563,000. That density congests the traffic in Palm Beach, where streets are designed to handle a population that tops out at 35,000 in January and February from a year-round base of 10,000. Old-time residents like Winston Guest worry about the damage done to the area's ecology by development. He remembers that, when he was a boy, the beach stretched more than a quarter mile away from Ocean Drive. Now, waves lap near the roadside sea wall at high tide because jetties built north of the island to keep open the entrance to adjacent Lake Worth blocked the natural southward drift of sand.

The irony is that, in resisting change, Palm Beach has lost much of its celebrated air of raffish ostentation. At the turn of the century, tycoons such as John "Bet a Million" Gates arrived in private Pullman cars. Pierre Lorillard came in a yacht with a herd of Jersey cows on board so his guests could have fresh milk. There's the legend of Howell Van Gerbig, who was standing outside a nightclub when a man pulled up in his car, ordered "Park this for me" and flipped the keys to Van Gerbig, who did so—up to its hubcaps in the ocean.

These days there is a sober tone to Palm Beach. One resident says, "There's a town ordinance that you have to wear black tie after dark." That's a joke. But men have been cited for jogging bare chested. An ordinance requires shoes and shirts to be worn farther than a block from the beach. Codes limit the height of new buildings to the tops of the palm trees. "For Sale" signs may be no bigger than 4 by 12 inches.

Enforcing the rules is an elite, 95-man police force that has 30 patrolmen with college degrees. The force has a SWAT team trained in antiterrorist and hostage-release tactics and 200,000 files on servants who have worked here, all of whom must be fingerprinted, photographed and carry ID cards. One of every 7 residents is in the crime-watch program. The result is one of the nation's lowest crime rates.

"This is one of the few places in the state where it's safe for a woman to walk at night with little fear of being molested," says Police Chief Joseph Terlizzese. Indeed. One man tells of having insomnia one night, going out for a walk and being stopped four times by officers. What might smack of police-state snooping elsewhere is appreciated here. What's at stake requires it. On an island just 14 miles by one-half mile at its widest point, property is valued at 12 billion dollars. The aggregate fortunes behind that display are anybody's guess.

Rolls-Royces are as ordinary on Palm Beach boulevards as Toyotas in Tokyo. The neighborhood shopping district—Worth Avenue—is one of the ritziest in the world, with some 200 stores offering men's wristwatches at $6,000 each, paintings by masters, diamond tiaras and a gold exchange. To get new soles on an old pair of shoes costs $28. Ed Kassatly, whose family has sold fine linens here for six decades, says he has more competition from Palm Beach specialty stores than he would have in New York City. Service is the key to catering to Palm Beachers, he says, "and you are going to get a smile if you only buy a $3 handkerchief."

Or as Ted MacNamee, pool manager at the posh Colony Hotel, notes, "They come here to be spoiled, and we're here to spoil them." So it goes in Palm Beach, where garbage is picked up five days a week, and lawns are so barbered that grass clippings are collected weekly.

Even the elements are pampering. As the closest point in Florida to the Gulf Stream, Palm Beach enjoys temperatures ranging from 66 to 83 degrees. On a February night when there are killing blizzards across most of the nation, warm, sea-scented breezes blow through open windows.

The sensuality of the place can seem incongruous to an outsider looking over the fluffed heads of hair in tints of white to blue that bob about the island's dining rooms like so many table arrangements of hydrangeas. Palm Beach Country Club members' average age, for instance, is 72.5 years. The height of fun is to go out and do good. There are so many charity balls that the most often asked question, according to local lore, is, "What disease are we celebrating tonight?"

National media poke fun at society matrons for seeming to attend balls to get their pictures in a local newspaper, popularly called the Shiny Sheet. Yet these galas raise vast sums for worthy causes—up to 10 million dollars annually, making this the most generous community of its size in the nation. At the Retina Foundation Ball, it is announced that Mrs. Frank Randolph has donated more than $400,000 to the cause over the years. Then, Mrs. Fran Todman rises to say that she, too, is writing a check for $50,000.

Socialites often skewer themselves with their own remarks. When one tells a reporter "nobody lives here who's unimportant" and another says she isn't bothered by tourists because "my house covers the whole block," the words in cold print have a la-di-da, let-them-eat-cake tone. In fact,

MAX KAUFMANN

DOROTHY BUFFMIRE

Rolls-Royces with chauffeurs waiting are common on Worth Avenue, where swank stores offer *haute couture* and jewels such as the display at right.

they aren't spoken that way and are simply meant to note the wealth and influence of the residents. Still, as corporate-merger specialist Arthur Burck observes, "If a man from Mars were to judge [us] from what he sees and reads in the Shiny Sheet, he would classify our town as populated mainly by thoughtless people whose time is spent on hedonistic trivia. . . . A visitor would never realize we probably have the highest percentage of college graduates of any locality in the country. . . . The membership rolls of some of our clubs sound like the Who's Who of the New York Stock Exchange."

That's a fact. South Florida's emergence as a center of international banking and its many airports allow top corporate officers to run global affairs from Palm Beach. Newer arrivals include Edward Cook of Cook Industries, Inc., designer Aldo Gucci, cosmetics queen Estee Lauder and Helen Boehm of the porcelain-art empire.

Younger entrepreneurs coming here find that the concentration of big-money managers offers contacts and investment chances. One such is Dennis Heffernan, 38, who bought the aging Brazilian Court Hotel, spiffed it up and doubled its revenues in three years. "I'm here to stay—as long as I'm breathing and solvent," says Heffernan.

Those seeking a quick score try real estate. There are only 2,400 dwellings on the island—and 500 realty agents. But with the median house price at 1.5 million dollars, it only takes one or two commissions a year to do well. Steve Cutter's firm spends $10,000 per listing on ads in German, Arabic and English publications because, he says, "You've got to get them before they get here; cabdrivers and bartenders carry licenses to sell." Until the arrival of European buyers, some of the mansions were deteriorating. But a house that sold for $350,000 seven years ago is now on the market for 3.5 million dollars.

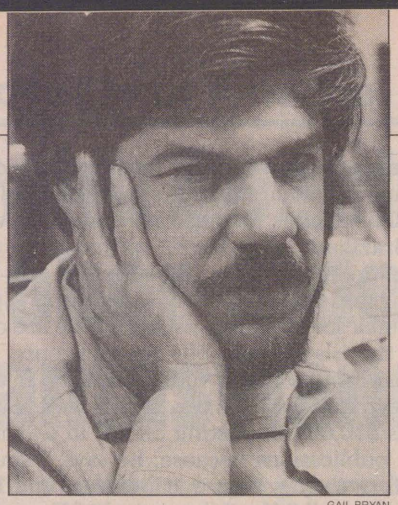
Cutter's associate Ben Johnson is looking for a rock star to buy a castle that has a full-sized pipe organ with sound ducted into every room. Says Johnson: "I always feel like I live in a fantasyland here and go back to the States when I cross the bridge. Lots of people will fly to New York for dinner at 21 and fly back that night in their private jet. I rented one house to a man from Libya for $3,000 a day. People are working toward some goal, and this is where it all ends, that goal. People come here to live out their fantasies."

There is a darker side to the Palm Beach fantasy—a division between gentiles and Jews. The so-called WASP bastion is the Everglades Club, where members reportedly have been rebuked for bringing Jews to lunch, and a young member was once asked, "To what degree is your wife Jewish?" Management refuses to comment on such reports, saying, "Our people are private." Until it was sued in 1965, the Breakers Hotel was restricted. The hub of the Jewish community is the Palm Beach Country Club—for those who can afford a $40,000 initiation fee and prove a record of philanthropy. A club spokesman says there are some non-Jewish members, "not many, but some." Often stung by the accusation of snobbism, residents note that other cities have clubs that discriminate. As for snobbery, Mayor Mack Ritchie points out that high-rises across Lake Worth are sold with the promotion: "Look down on Palm Beach." And postal workers complain that people from nearby towns come here to mail their letters so they'll have a Palm Beach postmark. Ironically, the island has no postmark of its own.

Because of their highly visible wealth, Palm Beachers believe, they are easy targets for the envious. A case in point: The jetliners that take off from West Palm Beach airport 5 miles away and roar directly over some of the finest mansions on the island—from which come 10 percent of the county's property-tax revenue but only a fraction of its votes.

"There's a human delight in seeing the ultrarich suffer indignity," observes Arthur Burck, sitting in his poolside cabana and raising his voice in contest with the jet booming overhead. "People are delighted to deal with you, and maybe they admire you, but there's a hostility underneath. The rich don't have many friends." □

By JOHN S. LANG



GAIL BRYAN

A Conversation With Stephen Jay Gould

How Science Changes With "The Political Climate"

Stephen Jay Gould, a leading evolutionary biologist, teaches at Harvard University. He is author of *The Mismeasure of Man,* a study of intelligence theories, which recently won a National Book Critics' Circle Award. The following is from a conversation with an editor of *U.S.News & World Report.*

Social disparities as "a product of nature"

The rise and fall in popularity of scientific theories correlates with changes in the political and social climate. That's why, as the nation moves to the right politically, arguments for biological determinism are bound to become popular. The determinists' message is that existing inequalities in society are a reflection of the intrinsic character of people and are not the fault of social institutions. Determinists are saying that disparities are a product of nature and therefore cannot be alleviated by very expensive social programs.

Similarly, the hereditarian version of IQ, which holds that you are measuring something that's inherited and unchangeable, flourished in the 1920s, the age of Sacco and Vanzetti and of jingoism inspired by World War I. The hereditarians argued that the single number called IQ could capture the multifarious complexities of the concept of intelligence and that you could rank races, classes and sexes on the basis of their average scores. To think that a whole host of abilities could be encompassed in a meaningful way by a single number is fundamentally fallacious. An approach which recognizes that *intelligence* is a word we give to an irreducible set of multifarious abilities might lead to a more adequate assessment.

The "grievous consequences" of IQ testing

I don't deny there is biology involved in some human abilities. I'd never be a marathon runner no matter how hard I trained, and I'll certainly never be a basketball player, because I am too short. But it is one thing to acknowledge that there is biology behind a lot of what we do; it is quite another to say that abilities are the result of intrinsic and unalterable heredity.

Yet today there are still many people, including some scientists, who think, in their heart of hearts, that IQ tests are measuring something intrinsic and permanent. That kind of thinking has had grievous social consequences for many groups in American society.

"Scientists reflect the prejudices of their lives"

In evaluating these and other arguments by scientists, it is important that people be wary of the claim that science stands apart from other human institutions because its methodology leads to objective knowledge. People need to realize that scientists are human beings like everybody else and that their pronouncements may arise from their social prejudices, as any of our pronouncements might. The public should avoid being snowed by the scientist's line: "Don't think about this for yourself, because it's all too complicated."

I wish scientists scrutinized more rigidly the sources of justification for their beliefs. If they did, they might realize that some of their findings do not derive from a direct investigation of nature but are rooted in assumptions growing out of experience and beliefs.

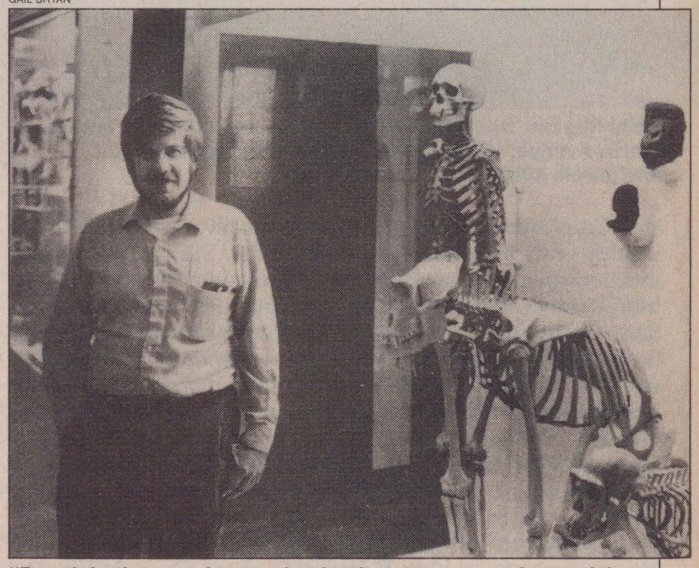
But don't draw from what I have said the negative implication that science is a pack of lies—that it's merely social prejudice. On the one hand, science is embedded in society, and scientists reflect the social prejudices of their own lives and those of their class and culture. On the other hand, I believe that there are correct answers to questions, and science, in its own bumbling, socially conditioned manner, stumbles toward those answers.

Gauging "the truth value of an idea"

In evaluating science, a distinction has to be drawn between where an idea comes from and how worthy it is. The truth value of an idea is independent of its source, but when you know its source, you might get more suspicious about its potential truth value.

Darwin's theory of natural selection, for example, came directly out of a social context: It was essentially Adam Smith's economics read into nature. Without Adam Smith and the whole school of Scottish economics, I doubt that Darwin would ever have thought of it. Yet Darwin was right, in large measure. So social conditioning doesn't make an idea wrong; it does mean you have to scrutinize it.

GAIL BRYAN



"Darwin's theory of natural selection came out of a social context: It was Adam Smith's economics read into nature."

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As Black Leaders Look Ahead to New Worries—

After years of major gains in civil rights, America's largest racial minority now finds itself adrift in huge problems—jobless youth, unhappy allies and government cutbacks in aid programs.

Shifting currents of power in America are forcing black leadership to reassess prospects for the nation's largest minority—and what it finds is not reassuring.

Recession is rolling back some of the major gains that blacks made in jobs and income over the past quarter of a century. Sharp differences are now surfacing over busing, affirmative action and other programs that are aimed at reaching the still elusive goal of full racial equality.

What this disarray underlines is a hard fact: Civil rights acquired in recent decades only laid the foundation for a sterner task—giving all blacks the education and skills needed to get the full equality that still evades them.

To America's 27 million blacks, the 1980s seem light-years from the exuberance of the civil-rights push in the 1960s and its battle hymn, "We Shall Overcome."

That campaign was carried out despite white violence in the South and black rioting in the North's big cities. Yet it won many court actions, staged freedom marches and secured the passage of a succession of laws to solidify civil rights for blacks and other victims of discrimination.

It was an era that revolutionized a community almost unchanged since the Reconstruction Era—largely isolated from the American mainstream and shaped over generations by its rural Southern origins and centuries of rigorous white supremacy.

Today, as "blacks" instead of as "Negroes," this racial community is becoming a largely urban constituency of political and economic importance across the nation.

Year by year, more blacks are being elected to serve on school boards, at city halls and in Congress. College-trained blacks by the thousands each year are moving into an integrated world in the professions, government bureaucracy and corporate management.

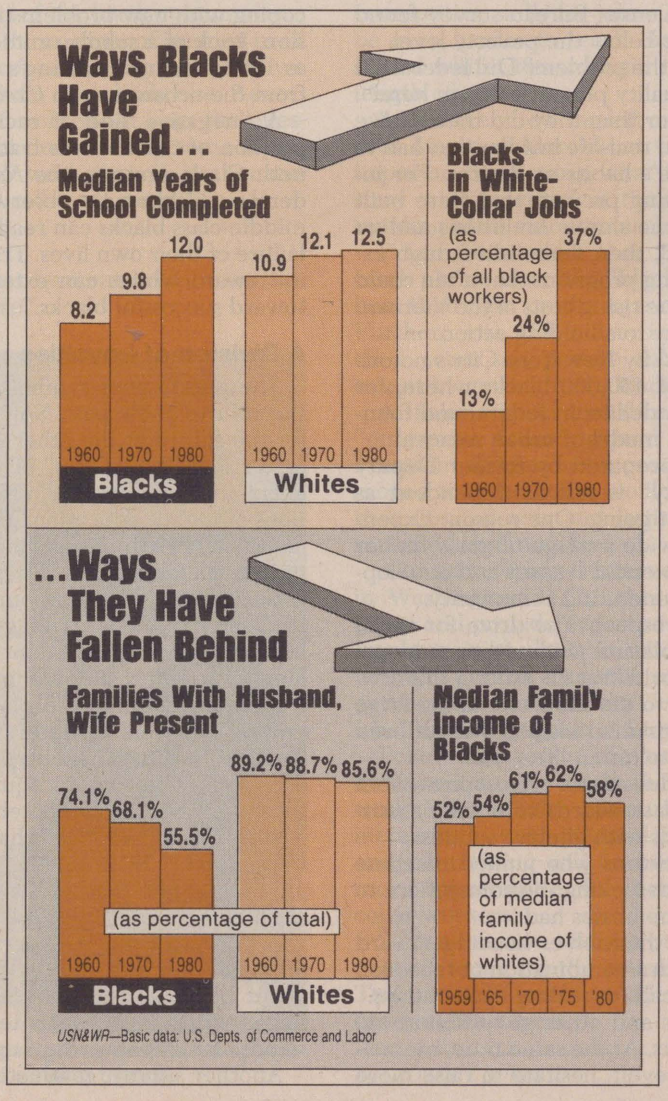
For all that, however, black strategists are having to take up a revolution that is far from completed.

The 1960s and 1970s brought disillusionment with some old assumptions—most notably that integration would provide blacks with equal education, hence equal achievement. Several studies have raised doubts on that article of faith. In a newly published study, "Black-White Contact in Schools: Its Social and Academic Effect," Purdue University sociologist Martin Patchen concludes: "Available evidence indicates that interracial contact in schools does not have consistent positive effects on students' racial attitudes and behavior or on the academic performance of minority students."

Moreover, with conservative policymakers cutting back federal spending, blacks see the erosion of programs that did seem to help, such as Head Start and job-training programs. This prompted bitter words from the new president of the National Urban League, John Jacob: "For black America, 1981 was a year of economic depression, savage cuts at survival programs for the poor and the betrayal of basic civil-rights protections. . . . The rich got tax cuts, the Pentagon got a blank check, but poor people lost jobs, training opportunities, food assistance, health care and much else."

Today, the endless struggle for survival still rages in the battle-scarred black slums of big cities, where poverty and defeatism, handed down from one generation to the next, have congealed into a *lumpenproletariat* of female-headed families, jobless men and aimless youths.

Each year, surprising numbers of young blacks do survive and escape—but many others succumb to a self-reinforcing culture seen by black psychologist Kenneth Clark as one of "low aspirations, poor education, family instability, illegitimacy, unemployment, crime, drug addiction and alcoholism, frequent illness and early death."



Burdens of Change

Statistics tell a startling tale of what has happened to the black community, in morale and material well-being, during the decades when billions were spent to help it catch up to the rest of America in education, jobs and income:

- Since 1970, teenage unemployment has risen from 29.1 percent of black youth to 41.2 percent.
- Births out of wedlock have been going up almost steadily—from about one quarter of all live births to black mothers in 1960 to 54.6 percent in 1979.
- Since 1959, the huge lag in the number of blacks in

UPI

Voting rights remain a racial issue—as in a 160-mile march to protest conviction of two black women on vote-fraud charges.

the median-family-income range has closed sharply, remained steady, then widened again.

In short, while many educated blacks have been profiting in status and income, the impoverished underclass has been growing rapidly, too. A 1980 Census Bureau survey found 32.5 percent of all blacks living below the poverty level.

Has Ronald Reagan added to the problem? Did federal aid go wrong? Where does the equality pursuit go from here?

The answers now seem clearer than they did then: Naïve planners often knew little of the real-life hurdles that had to be overcome to change people's habits or desires. For instance, many of the huge housing projects that were built during that time quickly became slums. Ambitious and/or poorly coordinated goals raised, then demolished, high expectations—as in "crash" training programs that often could not find jobs for trainees. And the rising costs of the Vietnam War slowed the War on Poverty to a holding action.

These failures are epitomized by New York City's notorious Bedford-Stuyvesant area of 450,000 blacks where, for 13 years, more than 83 million dollars in federal and foundation grants did not make it a model of urban renewal.

In fact, says an assessment prepared by former Deputy Mayor Haskell Ward, "Bed-Sty" is just as dependent as before on outside aid to keep it going. One reason: Expenditures were spread over too wide a range of goals, rather than focused on seeking out potential leaders and developing them as the core of a self-generating community.

Also becoming clear, in retrospect: The drive for racial equality was waylaid by a collision with other national trends that developed after World War II. Among them:

- The shift of white workers to the suburbs and the large inflow to the cities of mostly unskilled blacks, who suffered major problems of adjustment to urban life.
- A nationwide change in educational philosophy—from hard academic and behavioral standards to a lax permissiveness—was hopelessly at odds with ghetto realities.
- The rise of reformist politicians who junked machine politics brought in stylish mayors lacking the connections to poor neighborhoods that old-line bosses had.

Now, years later, blacks see themselves heading toward another collision—this time with a combination of recession and conservative policies that call for scaling back outlays.

These cuts hit social services and other government aid that many feel are vital to blacks. At the same time, municipal leaders, wary of taxpayer revolt, hesitate to raise more money in order to augment shrinking federal programs. The result is an impasse summed up by Bayard Rustin, a leading civil-rights activist for more than 40 years: "The middle class has become tired of carrying other people's burdens."

There are added troubles for blacks arising from the successes of the civil-rights era, such as competition from Hispanics for political power and jobs, and disunity within the black community itself as new interest groups develop.

Passing from power is the black bourgeoisie that for nearly a century represented blacks in business, the professions and activism. One of its contributions to black leadership was the late Rev. Martin Luther King, Jr., Nobel Prize winner.

This elite of educators, doctors, clergy and businessmen patterned its lifestyles on white society and profited greatly from a near monopoly in professional practice and markets within the segregated black community. Yet it shared the racial indignities and injustices of poor blacks, too.

Now its social authority and economic leadership are not as pronounced. Not only did integration bring a new generation of educated blacks—many of them at home in a racially mixed society—but changes also brought whites into direct competition with blacks for jobs and markets.

"The black community is not as cohesive as it once was," says the Rev. Roy C. Nichols, resident bishop for the New York area of the United Methodist Church. "What we have now is the development of class factors based on achievements, economic position and self-interest."

With those changes, leaders of the civil-rights era are coping with new problems in attempting to maintain cohesion. Lack of a solidly united front was evident as long ago as 1968, when even King's charisma got a muted response from the urban poor in Chicago and other cities.

A "negative side of racial progress has . . . eroded the position of the nation's traditional black leadership," Kenneth Clark wrote in the *New York Times Magazine*. "Underclass blacks who observe the apparent success of the middle-class blacks can readily compare it with the chronic failure of their own lives. Traditional resentment and hostility toward whites can extend to resentment and hostility toward successful blacks."

A Division of Loyalties

The ghetto poor symbolize blacks' disappointments and the failures of the past. Now some forecasts base their hopes for the future at the other end of the socioeconomic scale, on a rising "New Class" of young black professionals, managers and government bureaucrats coming out of institutions of higher education. Many of these hold degrees from largely white campuses ranging from state colleges to prestigious schools such as Harvard and Stanford.

For many of the newcomers, still on the fringes of black leadership, views are being shaped not only by early years in black neighborhoods but by careers in which they work alongside whites and live in integrated neighborhoods.

Moreover, unlike the black bourgeoisie of the past, the new elite covers a wide range of professions. Some enter private practice in their specialties; others go to work for corporations at salaries equal to and sometimes surpassing those of their white counterparts.

Most New Class blacks have long since shed their youthful militance. Even so, integration and affluence appear, if anything, to be sharpening the doubts of many about their abilities, future prospects—and white America.

A Harvard University survey of its black students, over a 30-month period, found that 40 percent were negative about being at Harvard. Sixty-nine percent said they believed admission policies tended to create doubts in their minds about the worth of their achievements.

Another survey, conducted by the *Washington Post* and

ABC News, found that 81 percent of blacks with college degrees felt that blacks generally are discriminated against in getting managerial jobs, while only 53 percent of other blacks surveyed believed this.

These privileged young come under some criticism from other blacks for not taking sustained notice of black concerns or attempting to seek solutions. Those who do take notice range from far leftists who talk of revolution to pragmatists whose priorities may put good schools ahead of busing. Further to the right, some share the conservatism of black economist Thomas Sowell, who wants less government and more private enterprise in solving black problems.

For many in this elite, internalized stress can be high. "There is a sense of divided loyalties among many of the young people I see who are holding down jobs in white firms," says Dr. Alvin Pouissant, associate professor of psychiatry at Harvard Medical School and senior associate at Children's Hospital in Boston. "They want to find out what role and identity they can sustain in the white world—but they don't want to abandon their people."

A growing trickle of the New Class is heading for run-down black communities such as Roxbury in Boston and Harlem in New York where they can identify themselves more strongly with black issues. With a few exceptions, however, the New Class is not rushing into politics—to the distress of older blacks such as Haskell Ward, president of a New York City consulting firm. His view: More black youths should steep themselves in politics and learn the art of coalition making, for the good of the black community.

"We need to find a linkage with concerns of interest to all Americans," Ward says. "By concentrating on race, we have made ourselves different from everybody else. Adversarial politics certainly have not worked—it begs the questions raised by those with honest doubts about some of the programs and the way they've worked, and it alienates potential allies among whites to call them racist."

The Incomplete Revolution

For all Americans, this modest ferment holds many lingering questions about the future.

AP

Black opposition to President Reagan grows despite his appearances aimed at soothing fears and winning friends.

Hard times and disillusionment among the urban poor have not yet reignited violence of the scope that set black neighborhoods aflame across the nation in the 1960s. Few, however, reject the strong possibility of a violent response should recession continue and spending cuts intensify.

In their hopeful moments, some black moderates foresee major failures in Reaganomics that could revitalize the civil-rights coalition. The less optimistic see only a deepening impasse that could produce politicized violence in the gray area between rioting and guerrilla warfare.

"I think there's potential for angry and hopeless young people in the ghetto to become candidates for guerrilla warfare," believes professor of psychiatry Dr. Pouissant. "Not politically. . . . They see it in direct, personal ways and act it out. It's rage acted out primarily on each other. But if you have leaders who can channel their anger to protest, yes—a charismatic figure like Malcolm X could reach some of these youngsters."

What some black moderates are also watching are New Class adults. "It's possible that they will become more radicalized if they become more frustrated," says Bishop Nichols. "If they continue to be accepted and to achieve, they are likely to move into typically white patterns of thought and action."

Nearly all these moderates emphasize that gains for middle-class blacks and setbacks to white supremacy cannot avert sustained racial strife over the long term unless there is access for the urban underclass to sound schooling and competitive skills for jobs—a goal, most concede, that will be even harder to reach than before if the drift of disillusioned whites toward rigid conservatism continues for any length of time.

A relatively few far-left radicals such as political economist Manning Marable at Cornell University are pinning hopes on developing what Marable calls a theory "to destroy white racism" as the prelude to "the successful rebuilding of an autonomous black movement."

Pragmatists retort that "white racism" is becoming a catch phrase that, like "black power" before it, sheds more heat than light on the ages-old American dilemma of race. Further, with U.S. aid to impoverished blacks on the decline, some say, private enterprise can compensate to an extent by getting more blacks on payrolls.

A major step in that direction, some believe, would be "enterprise zones" around eroding inner cities, an idea President Reagan has approved in principle. Industries that moved into the zones would be given special tax breaks if they created new and lasting jobs for those living in surrounding communities.

Also under study is intervention like that being proposed in Washington, D.C., where General Motors would help equip and provide expertise for a "career" high school that would train students in mechanics and engineering along with the normal academic courses—with additional help in getting jobs. Control Data Corporation is conducting a somewhat similar program at Scott High School in Toledo, Ohio.

Policy changes in the nation's capital are intensifying awareness among blacks that the civil-rights phase of their struggle for equality has much left to do. It is also clear that, increasingly, well-planned drives for effective education and job training will be necessary in a society that offers more opportunities for technicians than it does for blue-collar workers.

Such a focus on realistic priorities would offer some prospect of repairing the recent erosion of black confidence. This, in itself, would go a long way toward averting racial crises in the future. □

By GEORGE E. JONES

When Protesters Wind Up In Congress—

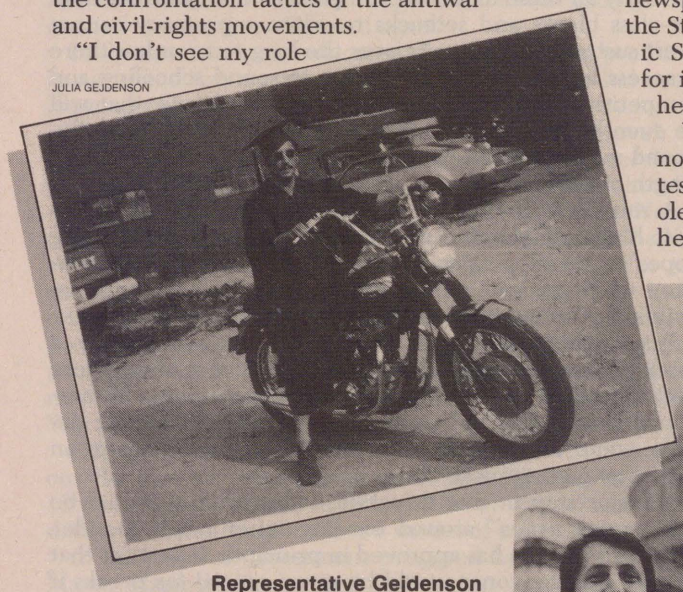
They no longer march in the street, but the battle against "the system" goes on for activists turned lawmakers.

A group of former protesters of the 1960s has found refuge inside one of the most prominent symbols of the Establishment—the U.S. Congress.

As lawmakers, some ex-activists are still fighting the system, challenging President Reagan on a wide range of issues, from aiding El Salvador to cutting social programs. Most, however, have found they now can achieve more by political give-and-take than through the confrontation tactics of the antiwar and civil-rights movements.

"I don't see my role much different today than it was in 1968," says Representative Bob Edgar (D-Pa.), 38, who attended his first antiwar march on Washington 14 years ago. "I've always been a nose-to-nose confronter of the system to make it work better." A persistent critic of pork-barrel legislation, he once threatened to seek 184 changes in a 4-billion-dollar water-projects bill, earning the enmity of lawmakers whose districts stood to gain by the measure.

JULIA GEJDENSON



Representative Gejdenson learned from his experience as a campus activist.

On the other hand, Representative Thomas J. Downey (D-N.Y.), 33, whose father took him to Washington in 1965 for his first antiwar protest, has learned that to be a leader in Congress, he must bend at times. Although he disagreed with the Democrats' attempt last year to top Reagan's tax-cut bill with their own generous proposal, he voted with the party for unity's sake.

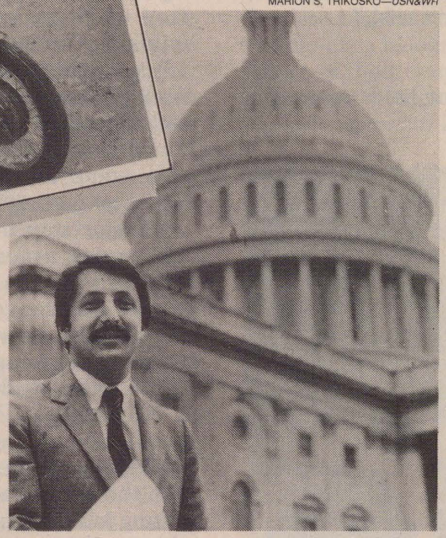
"It's a lot harder to do that for someone who grew up in an era of criticism," says Downey, who views his "very healthy disrespect for authority" as an important product of his involvement in antiwar activities.

At least 15 former antiwar and civil-rights protesters now serve in Congress. Nearly all are liberal Democratic House members. At least two senators, Joseph R. Biden, Jr. (D-Del.) and Paul Tsongas (D-Mass.), participated in demonstrations before their elections to national office—Biden in civil-rights protests and Tsongas in antiwar marches.

A GOP lawmaker known to have protested the Vietnam War, David Stockman, quit the House last year to become Reagan's budget director. While a student, Stockman opposed the war so strongly that he once lent his name to a newspaper ad sponsored by the Students for a Democratic Society, a group known for its radical views. Today, he is a solid conservative.

With one exception, none of the former protesters ever advocated violence. A decade before he was elected to the House in 1978, Mickey Leland (D-Tex.) preached that fellow blacks should retaliate physically against anyone who attacked them. Today, at 37, he describes himself as a pacifist who believes in turning the other cheek.

MARION S. TRIKOSKO—*USN&WR*



Leland is one of at least 10 ex-marchers who, citing alleged human-rights violations, have demanded that Reagan rule El Salvador ineligible for military and economic aid.

Sam Gejdenson's participation in antiwar marches and teach-ins while a student in Connecticut underscored for him the importance of an uninhibited flow of information. He became convinced that Americans would have turned against the Vietnam War sooner had they had more facts about it. At the same time, he saw that groups like the SDS were just as willing as government officials to muzzle dissenters.

As a freshman representative from Connecticut, Gejdenson, 33, believes that lawmakers and their constituents need maximum information to make intelligent decisions. Says Gejdenson: "If you're arguing about building the B-1 bomber and someone says, 'Let's wait for the Stealth bomber,' how can you make an informed decision unless you know what the Stealth is?"

Representative Toby Moffett (D-Conn.) calls himself a "foot soldier" in every major antiwar demonstration in Washington from 1968 on. In 1970 he resigned as director of youth programs in the U.S. Office of Education to protest Richard Nixon's war policies.

Keeping the faith. Like all the Democrats who marched in the 1960s and early '70s, Moffett, 37, says he is still true to the ideals he held 10 or 15 years ago. And, like most of the others, he admits he has had to learn to compromise.

"The activist protest style can only carry you so far in Congress," contends Moffett. To be successful, "former activists have to try to establish relationships across ideological, party, regional and age lines. If you insist on personal confrontation and try to fight every battle, you can't be effective here."

Representative Ronald V. Dellums (D-Calif.) doesn't buy that argument. First elected in 1970 with a reputation as a radical, Dellums refuses to budge from the antiwar and antiracism principles he espoused in the 1960s. His major concern today: What he sees as America's excessive spending on arms.

"I don't see the need to compromise and have never seen the need," says Dellums, 46. "There are 434 other people who got here the same way I did. I see no need to kowtow to them."

If anything, after serving 11 years, Dellums is even more convinced of his views. He believes, for instance, that Reagan approved the B-1 bomber simply to appease Air Force generals upset with his decision to shelve the MX missile-basing scheme they favored.

While the former activists disagree on some points, they concur on the importance of protest in America. As Downey puts it: "Protest is a legitimate part of the operation of a democracy. It is the steam valve for a boiler that has built up too much pressure." □

By MANUEL SCHIFFRES

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Ranger XLT model shown

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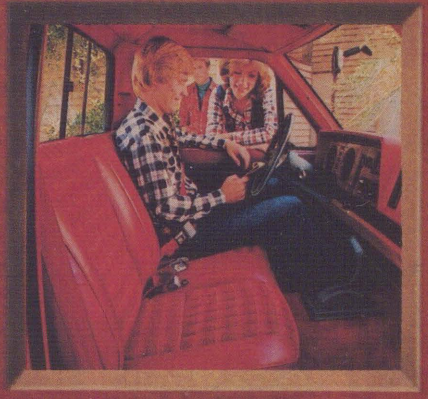

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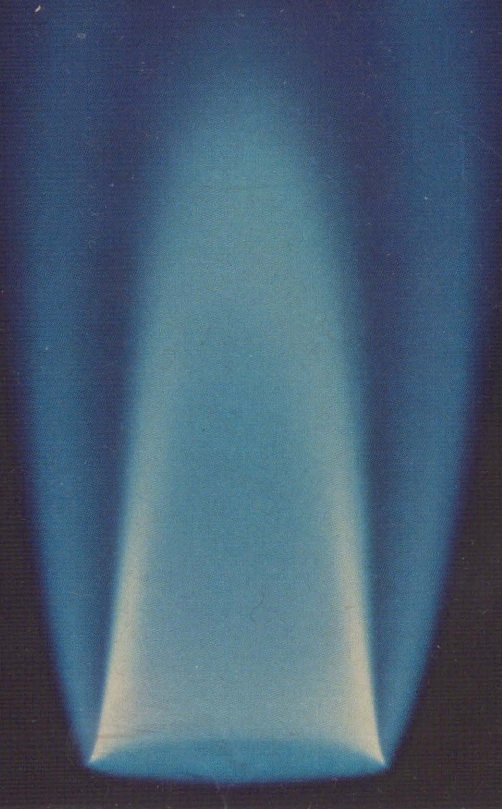

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IN YOUR PERSONAL PLANNING

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Gaining a new young driver in the family presents many problems, but careful attention by parents can help reduce the high teenage accident rate.

TEENAGE DRIVERS. Parental rules of the road should combine an active interest in the new driver's skills with a firm grip on the car keys, says the North American Professional Driver Education Association. Some guidelines:

Supervise driving practice. High-school driver-education classes can provide as little as 20 to 40 miles of driving experience. Parents should oversee an additional 500 miles in light-to-medium traffic, plus 10 to 20 hours of more complicated maneuvers such as getting on and off expressways.

Limit driving. Start your teenager's solo driving with short errands, and restrict use of the car to 4 hours at a stretch in the first year.

Social rules. Make it clear that plans involving the car are discussed before commitments are made to friends. Agree on how many nights a week the car can be used. Set school-night and weekend curfews. Stick to the rules.

Car care. Reach an agreement in advance on who pays for the gas and what the responsibilities are for cleaning and maintenance.

Enforce your rules. Take back the car keys for a week to a month if grades decline or some rule is broken. Serious infractions, such as showoff driving, an accident or near accident and traffic tickets, call for longer penalties. Suspend use of the car indefinitely if drinking is involved.

DRAFT REGISTRATION. Young men are technically in violation of the law if they fail to register with the Selective Service System within 30 days after their 18th birthdays. Due to confusion over extension of registration, however, late sign-up is being permitted until February 28 without penalty.

EYE PROTECTION. Permanent vision loss can result if the cornea of the eye is burned by something splashed into it. Especially dangerous are the alkalies in oven and drain cleaners and chlorine bleaches. First aid for these--and any other chemicals or foreign bodies in the eye--is to flush the eye with water for at least 10 to 15 minutes. "Get into a shower, stick your head under a faucet or use a garden hose," advises the director of the Bay Area Regional Poison Control Center in San Francisco. Be sure to remove contact lenses first. And a follow-up check by a physician is highly recommended.

CANCELING A SALE. The Federal Trade Commission rule that permits cancellation of purchases made from door-to-door salespeople within three days also extends to most sales made away from the seller's normal place of business. This includes consumer-product "parties" or agreements reached in

(over)

hotel rooms or restaurants. Just fill out the cancellation form on the sales agreement and see that it is delivered--either by mail or in person--by midnight on the third day. If there is no form, you can make your own and report the seller to the FTC for not supplying one. Use certified mail or get a receipt. Not covered: Sales made entirely by mail or phone, purchases under $25, real estate, insurance, securities, emergency home repairs.

TAX FORMS. If you have not received an income-tax form in the mail, it may be because you have moved. Forms are no longer forwarded outside a local postal area. They may be obtained from many libraries, banks, post offices or directly from the Internal Revenue Service.

WOMAN'S GUIDE. If you are a divorced woman and were married to your ex-husband for at least 10 years, you can receive Social Security retirement or disability benefits when you turn 62. Full information is contained in "A Woman's Guide to Social Security." Send a postcard to the Consumer Information Center, Dept. 513K, Pueblo, Colo. 81009 for your free copy.

DOCUMENTING A LOSS. Pictures can be a big help in substantiating insurance claims for property that is stolen or destroyed in a fire or other disaster. Color slides or photos should include jewelry, silver and china that are stored out of sight and the contents of closets and drawers. Be sure copies of pictures, and a room-by-room inventory, are kept in a safe-deposit box or other safe spot away from the home. For even better verification, some security agencies will make a videotaped record of your possessions.

HELP YOUR FURNACE. If you get goose bumps in your house, it probably is because the humidity is too low, says the National Oceanic and Atmospheric Administration. If the temperature is 68 degrees Fahrenheit and the relative humidity 10 percent, to most people it will feel like 62 degrees. Increasing the humidity to 70 percent will raise the apparent temperature to 68--without overworking the furnace or running up your fuel bill. Humidifiers, vaporizers, steam generators, exposed water sources such as large pans all will add water to the air. Even wet towels or water in the bathtub can help.

PAYING FOR COLLEGE. The College Board offers a step-by-step guide on getting your share of aid. "The College Cost Book, 1981-82" lists costs at more than 3,200 institutions, contains sample financial-aid forms and a bibliography of aid sources. It is available at most bookstores or directly from College Board Publication Orders, Department D-33, Box 2815, Princeton, N.J. 08541. The price is $8.95.

A CLANK OR A CLUNK? Taking your car to a mechanic is a bit like taking yourself to a doctor, says the Motor Vehicle Manufacturers Association. Be prepared to describe symptoms and when they occur. Be as specific as possible about "clanks" and "clunks." If your car shimmies and shakes, for example, knowing at precisely what speed will make the diagnosis easier.

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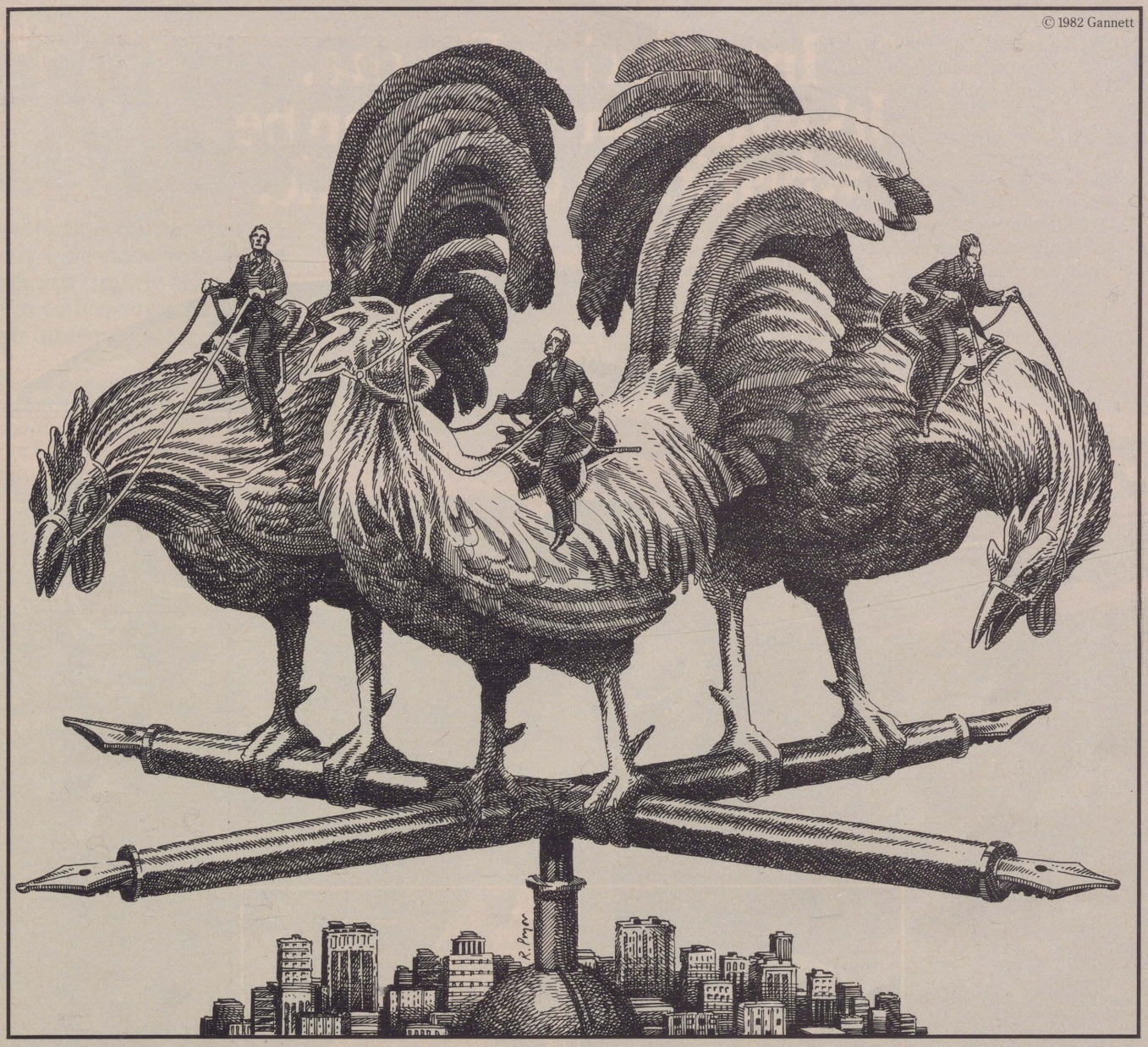

DIFFERENT VOICES MICHIGAN STYLE

When Gov. William G. Milliken announced withdrawal of his support for 1982 property tax relief, the reaction of Michigan residents was sharply divided. And so were the editorial opinions of the Gannett newspapers in that state.

To the Port Huron Times Herald, the action taken by the governor had "unexpectedly but decisively made him completely expendable here." It accused Milliken of "closing his eyes to reality" and to the "groundswell of near rebellion against property taxes" that had already struck California and Massachusetts.

To the Battle Creek Enquirer and News, however, Milliken "made the right decision in withdrawing his proposal." The Enquirer and News felt that broader public understanding of the state's problems should precede any tax reform measure.

To the Lansing State Journal, which came down between these poles, the move was merely a "risky political gamble," but one that had been made "inevitable by the continuing decline in the state's economy."

Those different points of view were arrived at individually by publishers and editors of those newspapers exercising their independent professional judgment and local understanding built on decades of newspapering experience in the state.

Such diversity is not unusual for Gannett member newspapers. As a matter of principle, every Gannett voice is free to express its own opinions, serve its own community and meet its professional obligations as its local managers see fit.

That freedom rings throughout Gannett, from Nashville to Oakland, from St. Cloud to St. Thomas, from Olympia to Burlington. It rings in news coverage, in editorial opinions, in community service, as each member serves its own audience in its own way.

For more information about Gannett, write: Gannett Co., Inc.; Corporate Communications; Lincoln Tower; Rochester, N.Y. 14604, or call (716) 546-8600.

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Finance

What You Can Earn On Your Savings Now

As inflation moderates, many investors with spare cash are finding a host of ways to collect on today's high interest rates.

Those resurgent interest rates that threaten to crimp President Reagan's economic recovery plan are turning into a bonanza for savers.

The chief attractions: Lucrative yields on government and corporate bonds, money-market investments and other securities, which, in many cases, are nearly triple the inflation rate.

Annual returns on Treasury securities, ranging from 13-week bills to 20-year bonds, now are about 14½ percent. At that level, too, is interest paid on savings certificates by most banks and savings and loan institutions. Money-market funds and tax-free municipal bonds return about 13 percent.

Short-term rates, the key to yields on a number of securities and money-market funds, got an extra boost February 18, when major banks raised their prime lending rates to 17 percent from 16½.

All told, says Don Jancosek, securities manager for First National Bank of Fort Worth, Tex., the investor now "senses that his real return over inflation is better than it's ever been."

Underlying this enthusiasm is the current economic environment. Almost daily, fears are growing that the recession, now into its seventh month, will be deeper and longer than anticipated. If that happens, demand for credit is expected to diminish soon, allowing interest rates to decline, analysts contend. That means today's yields would look all the more attractive.

Despite the prime-rate jump, many authorities foresee only slightly higher rates before a dip of 2 to 3 percentage points occurs within a few months.

Others disagree, saying even better investment deals should materialize for those willing to wait a while. Typical is William Webster, senior trust officer for the Union National Bank of Little Rock, Ark.: "Keep your powder dry because there are better buying opportunities on the horizon."

Even at current levels, however, today's opportunities for savers represent an about-face from the past. In recent years, interest returns were badly eroded by soaring inflation. Ten-year Treasury bonds, for example, yielded an average 9.44 percent in 1979 as consumer prices climbed 13.3 percent, meaning that a bond purchaser's investment lost buying power. Today, however, the return on a bond yielding over 14 percent would far outstrip prices, assuming inflation rises at the 6 to 7 percent pace forecast by the administration and private economists.

Here's the outlook for key investments, as bankers and analysts see it—

Bonds. The potential for high interest and capital gains are making intermediate and long-term purchases of U.S. and corporate bonds attractive.

"A 14-to-16 percent return on a bond is very, very robust," explains Gary Brinson, chief investment officer for First National Bank of Chicago. Moreover, "if interest rates fall, bond prices will rise, and you get appreciation as well," which can be turned into cash by selling the bond.

Cited as good buys are high-rated, 20-year corporate and utility bonds with recent yields of 15.75 percent to 17 percent. Attractive, too, are Treasury bonds stretching out for 10 years and 20 years with yields, free from state taxes, of more than 14 percent.

Yields on intermediate-term bonds of seven to 10 years will probably slip this spring and summer by up to 3 percentage points from current levels. But long-term bond rates could remain closer to today's levels—if skepticism persists over a permanent reduction of inflation.

Another choice is U.S. savings bonds—a traditional investment vehicle for millions. But these instruments have been losing popularity as interest rates rise. Currently, they yield only 9 percent when held 8 years.

Tax-exempt bonds. The yields on securities floated by state and local governments are attractive, too. One reason: Localities are being forced to offer healthy returns to compete with the federal government and corporations for much-needed cash. With current yields near 13 percent, on average, the bonds are most enticing to higher-income Americans. One caution: Investors need to be selective because some cities have serious financial problems. That represents more risk.

Certificates of deposit. Rates on six-month, $10,000-minimum money-market certificates offered by most banks and thrift institutions also are climbing. On February 17, many institutions began paying 14.61 percent, the highest rate since last September. Returns on the federally insured certificates are tied to the weekly auction of 26-week Treasury bills.

Available, too, are a host of other investment vehicles. These range from 90-day, $100,000-minimum certificates of deposit to longer-term vehicles of 18 and 30 months with much smaller minimum deposits. All are now paying above 15 percent.

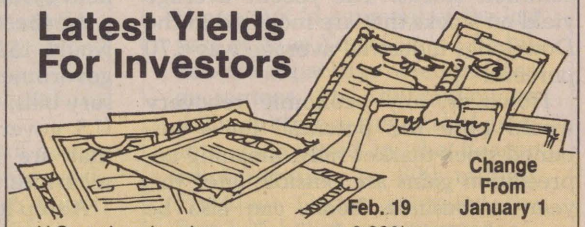
All-savers certificates, which allow up to $1,000 in tax-free interest for individuals, are yielding 10.79 percent.

Investors also have the option of purchasing shorter-term investments directly from the government. These bills and notes range in maturity from 13 weeks to two years. On February 18, the Treasury sold 5.25 billion dollars' worth of two-year notes at an average yield of 15.21 percent.

The outlook for these investments: Slightly higher rates in weeks to come. Then, a gradual slackening of at least 2 percentage points seems likely.

Money-market funds. The most liquid

Latest Yields For Investors



	Feb. 19	Change From January 1
U.S. savings bond	9.00%	----
S&L passbook savings	5.50%	----
90-day bank certificate of deposit ($100,000)	15.38%	Up 18.3%
6-month money-market certificate ($10,000)	14.61%	Up 15.0%
30-month small-savers certificate (at S&L's)	15.05%	Up 11.9%
1-year all-savers certificate*	10.76%†	Up 5.9%
Money-market mutual funds	13.26%	Up 12.0%
13-week Treasury bill	14.74%	Up 26.1%
10-year Treasury bond	14.22%	Up 0.7%
20-year Treasury bond	14.27%	Up 0.2%
New AA utility bond (long-term)	16.63%	Down 0.8%
Municipal bond (S&P average)*	12.80%	Down 2.2%
Common stock (Dow Jones industrials)	6.70%	Up 6.0%

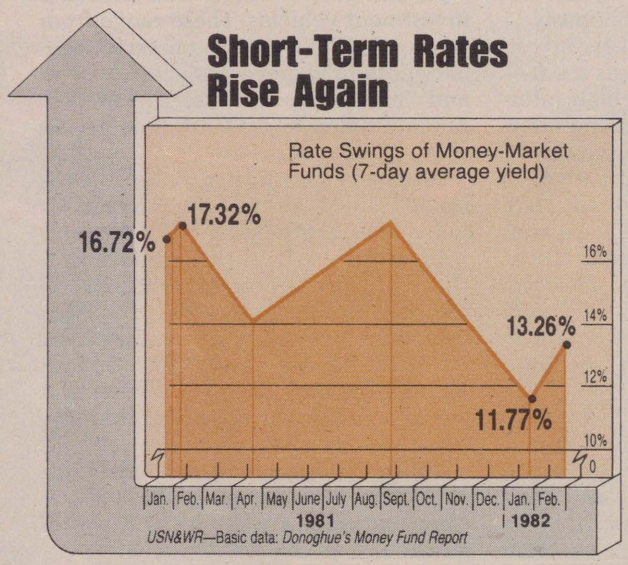
*Tax-exempt. †As of February 21.

USN&WR—Basic data: Federal Reserve Board, Dow Jones & Company, Standard & Poor's Corporation, Salomon Brothers, *Donoghue's Money Fund Report*

of all investments, money funds pay daily dividends, which most people treat as interest. Returns mirror changes in the financial market. The most recent average seven-day yield for the 150 taxable funds was 13.26 percent, up from 12.85 percent a week earlier.

Generally, when short-term interest rates rise, yields on money-market funds climb at a slower rate. Conversely, when rates slip, the funds also lag. If interest rates decline this spring, these funds will be paying 1 or 2 percentage points more than other short-term investments—at least for a while.

Stocks. Not as attractive to investors is the current return from dividends on common stocks. The recent average yield on stocks that are included in the Dow Jones industrial average was 6.70 percent.



However, any economic recovery would raise the potential for a sustained stock-market rally, meaning appreciation gains are possible later this year. A business boom can also be counted on to boost dividends.

Mortgages. Currently, potential mortgage borrowers are being asked to pay between 17 and 18 percent—and millions are refusing to do so. A stronger economy and lower interest rates could translate into a brighter housing picture, with rates of 14 to 15 percent possible by fall.

Automobile buyers and other shoppers for consumer goods also could pay slightly less later this year—possibly 1 or 2 percentage points below current levels of at least 16 percent.

In all, though the current economic pinch means pain to many Americans, it also offers investors an opportunity to get a step ahead of inflation. □

By JAMES M. HILDRETH

Interview With Norman G. Fosback, President, Institute for Econometric Research

How to Judge Safety of Money-Market Funds

Yields are not the only important thing to look at, advises an expert. An investor should also investigate where a fund puts its cash.

Q. Mr. Fosback, are some money-market mutual funds safer than others?

A. Absolutely. There is a broad range of safety that depends on four principal elements: The quality of the assets in a fund's portfolio, the degree to which the fund's investments are diversified, the average time to maturity of its investment holdings and, finally, the volatility of the fund's yield and average maturity.

Q. How do you judge asset quality?

A. You have to look at the degree of risk of default in payment of interest or principal on the debt obligations held by the fund.

At the top of the ladder, what we would rate as triple A in safety are government securities, such as Treasury bills, which are guaranteed by the U.S. government, or other instruments that are backed up by government securities.

A step lower, what we rate as double A are certificates of deposit and bankers' acceptances of the largest banks.

In the next category, single A, are top-rated commercial paper of U.S. industrial corporations, deposits at U.S. branches of foreign banks and deposits at American bank branches abroad—known as Eurodollars.

Getting into a more risky area, triple B, are deposits in foreign-bank offices outside of the United States, as well as commercial paper with other than the highest credit rating.

Next, rated double B, come deposits in excess of insurance limits at smaller banks and thrift institutions.

Finally, in the riskiest category, single B, are speculative investments, such as deposits in foreign currencies and debts of international agencies.

Q. How much risk should the average investor take?

A. Many investors will want to hold funds that invest predominantly in triple or double-A debt obligations, but, practically speaking, we believe most people can put their money safely in funds that invest throughout the A range.

It's when you drop into triple-B and lower holdings that the amount of risk increases more substantially.

Q. How important is diversification?

A. If a fund is wholly invested in Treasury securities or other obligations backed by the government, diversification isn't important since the government stands behind everything.

However, when a fund invests in other types of instruments, diversification is important. In those cases, we agree that you shouldn't put all your eggs in one basket.

Q. Length of maturity matters, too?

A. Yes. The average time to maturity of assets held by money funds is now about 30 days. This is relatively short and, we think, appropriate. In judging safety, we downgrade a fund if its average portfolio maturity exceeds 60 days. If it exceeds that length, we would consider its safety well below average.

Q. Why the emphasis on short maturities? Some people believe it would make sense to lock in high interest rates—

A. Locking in high rates is ideal if interest rates are stable or they decline. But if rates increase, then the value of those longer-term securities will decline, and that could cause losses to the fund's investors. Most individuals who invest in money funds want to avoid risk. They invest with a savings point of view.

A short average maturity also means a fund can meet any surge of redemptions by its shareholders with little or no problem. That's because its assets are constantly maturing.

Q. Is there insurance to protect investors against loss?

A. There generally is insurance coverage to protect against embezzlement within the fund. But there is no insurance for fluctuations in the value of the fund's investments or for a default—except, of course, for those instruments that are backed by the U.S. government. □

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A Gloomy Business Picture In Europe, Too

The current slump will last into 1983, warn experts. And foreign leaders complain that high U.S. interest rates make things worse.

GENEVA

President Reagan cannot count on much help from Europe in speeding the business upturn in America.

European forecasters now see an extended recession, with business prospects remaining dim until 1983. In addition, growing tensions among the U.S., Europe and Japan over trade and monetary policies are causing rising uncertainty in business circles.

Says Norbert Walter of West Germany's Kiel Institute, a business-analysis group: "Key industries everywhere are working well below capacity. Profits are inadequate. Unemployment keeps climbing fast. Next year may bring a recovery—but only if monetary policy is eased and interest rates come down."

At best, says the organization's latest forecast, growth in output in the world's industrial nations will be flat this year. Over all, output in America and Europe is expected to drop about half a percentage point for the year, after adjustment for inflation. In Japan, growth of about 3 percent is forecast.

Brighter note. The combination of weak demand and idle business capacity, however, could mean slower price rises than had been expected earlier, from an average of 10 percent last year to 7.5 percent for industrial nations in 1982, according to analyst Walter.

At the same time, though, the number of people out of work is expected to rise, perhaps setting new records in Europe. The number of job seekers in the Common Market nations is now more than 10 million and still climbing. Unemployment in major industrial nations may approach 30 million within the next 12 months, with roughly 17 million out of work in Western Europe and another 2 million in Japan.

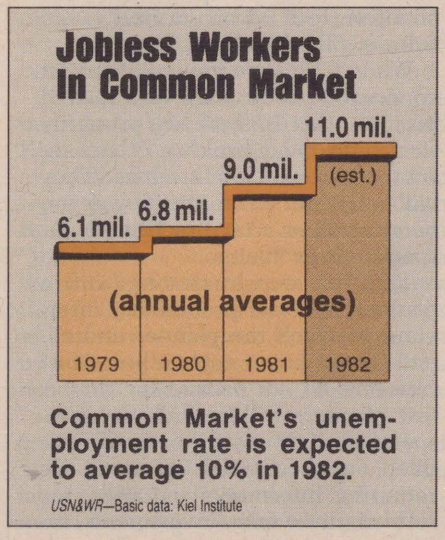
In West Germany, as in the U.S., consumer spending and business investment are sluggish. Company profits have dropped 15 percent in the past two years. Bankruptcies are at a post-World War II high.

Spain, Italy and many of the smaller European nations that depend on the business climate in West Germany all face months of stagnation and higher unemployment.

The Socialist government of François Mitterrand in France hopes to boost employment with spending programs, higher minimum pay and welfare and a shorter workweek. Total output could rise 2 percent, some experts say, and consumer demand is picking up. But capital outlays are weak, the jobless rate is about 9 percent and inflation remains in double digits.

In Britain, output is expected to rise just 1 percent this year. Unemployment is over 12 percent, and some predict it will go higher.

High interest rates are a major factor in the gloomy outlook. Still, many experts believe that Europeans cannot cut rates as long as Washington uses tight money as its principal weapon against inflation. The problem is that higher rates in the U.S. would make the dollar more appealing as an investment and cause big outflows of money to the United States. This would weaken European currencies, push import costs higher and worsen inflation.



European worries about the impact of U.S. interest rates have soared to new highs. Belgium's Premier Wilfried Martens, on behalf of the 10-nation European Community, asked for changes during talks with Reagan and other officials in Washington on February 17.

There are other worries, too. Sentiment toward trade protectionism is rising, and many governments are increasing aid to industries hurt by imports.

Says a Geneva-based trade expert: "We are in a precarious situation, with persisting inflation, growing trade and financial risks and weakening business confidence. The dark spots clearly outweigh the bright ones." □

By ALFRED ZANKER

Finance Trends

No to gold. The U.S. Gold Commission on February 12 voted against a return to the gold standard "under present circumstances." The panel did not rule out a return to the gold standard in the future, however. In another vote, the commission recommended that the U.S. mint a new gold coin to compete with those sold by Canada and South Africa. The nondenominated coin would not be legal tender and would be sold for the value of its gold content. As proposed by the commission, coin investors would not have to pay any sales or federal capital-gains taxes.

Prime rate. Chase Manhattan Bank boosted its prime lending rate by half a percentage point to 17 percent on February 17. Other major banks quickly followed, spreading the rate nationwide.

Government financing. Rates on short-term Treasury bills rose to their highest levels in nearly five months at the February 16 auction. Returns on 13-week bills averaged 14.740 percent, up from 14.099 the week before. The yield on the 26-week issue climbed to 14.360 percent from 13.933.

Aid for New York. The White House O.K.'d payment of the last part of New York City's 1.65-billion-dollar package of federal loan guarantees. The 300-million installment brings the total of guarantees approved by the Reagan administration to 600 million. President Carter extended the first 1.05 billion in guarantees.

Falling peso. Mexico's central bank withdrew its support of the peso and announced on February 17 that it was suspending trading in world money markets. At that time, a peso was worth 3.7 cents in U.S. currency. The action by Banco de Mexico is expected to cause the first large-scale devaluation of Mexican currency since August, 1976, when the value of the peso dropped 45 percent. Analysts attribute the decision to Mexico's big balance-of-payments deficits and high inflation rate. Some predict the peso's value may fall by 25 percent or more.

Managing Your Money

Sizing Up a Financial Planner

By John W. Hazard

New ways to invest, new types of life insurance, changes in income and estate taxes, all are causing a growing number of people to seek paid financial advice. Where can you turn for aid? What do advisers charge? How do you choose one?

One group of advisers typical of the profession includes those known as certified financial planners, or CFP's. They are "generalists." That is, they are knowledgeable in the fields of stocks, bonds, limited partnerships, insurance, taxes, retirement, wills, estates and household budgeting. The initials CFP mean that a person is a graduate of the College for Financial Planning in Denver and adheres to a professional code of ethics.

Actually, the concept of professional planning is not new. Years ago, some life-insurance salesmen began offering financial planning, often as a come-on to sell life insurance and mutual funds. Rare was the plan that did not recommend that the client buy something that involved paying a commission. Now, the aim in the industry is to cut down on such potential conflicts of interest and to raise financial counseling to true professional status.

Even today, however, while almost all CFP's offer consultation on a fee basis, they still derive most of their income from commissions on the sale of insurance or securities. As one adviser puts it, usual consulting fees of $60 to $100 an hour are a loss leader. That need not deter you from seeking advice, provided you clearly understand the fee-commission arrangement in advance and choose a consultant whose investment philosophy matches your own. There are "go-go" planners who tend to recommend borrowing from life-insurance values or mortgaging a home to raise cash for investment in tax-sheltered limited partnerships. Others are likely to advise more-conservative programs of budgeting, saving and investing.

You should choose a planner who is interested in working with people with your level of income and assets. Some planners, usually in large cities, cater to wealthy clients. Others gear their business to specific groups, still others to anyone wishing financial guidance, including those with incomes down to $20,000.

One financial consultant in Washington, D.C., says that her services are most valuable to single persons with incomes of at least $40,000 or couples with $80,000, and assets of $50,000 or more, not counting a home. She charges such clients 1½ percent of gross taxable income plus any commissions incurred. For others, she charges an hourly fee of $100 with a $500 minimum.

A planner in Kansas travels extensively and will hold a preliminary discussion with any prospective client at no charge. Thereafter, his fee is $60 an hour plus commissions. Because of the wide spectrum of his clientele, fees for his services range from $3,500 down to $250.

While CFP's are generalists, most concentrate their work in a related business; that is, some are primarily stock and bond brokers, others insurance brokers, for instance. They will refer you to an attorney if you need a will or a tax practitioner for special tax problems.

The first step in dealing with a planner is a brief preliminary interview in which the planner and client get to know each other. Most planners do not charge for this. A few planners will not talk to a prospective client until he or she has filled out a financial questionnaire requiring information on wills, tax returns, net worth, investments, insurance and indebtedness. Generally, however, this form is not required until after the preliminary interview determines whether the client wishes the planner's services.

Questionnaires can be short and simple or long and involved, depending on the complexity of a client's financial affairs. In most cases, the information is eventually fed into a computer for a printout giving the basic elements of the finished plan.

The best way to find a planner suited to your needs and philosophy is through word of mouth. You can get a list of CFP's in your area by writing to the Institute of Certified Financial Planners, 9725 East Hampden Avenue, Denver, Colo. 80231.

Managing Your Money is written for *U.S.News & World Report* by an independent financial authority.

TAX RULINGS

With Pocketbook Impact—

Capital-gains syndrome. Were you among the millions who enjoyed a sizable capital gain last year on, say, the sale of a home or in a lump-sum payout of a retirement plan? If so, you may find yourself the target of a penalty tax on tax-preference income. And married couples can get set for a one-two punch.

Harvey and Janice Anderson of Walnut Creek, Calif., reported a gain in excess of $25,000. They took the capital-gains deduction of 50 percent and paid taxes on the rest. The Internal Revenue Service, noting that a capital-gains deduction is a "tax-preference item," hit the Andersons with the 15 percent "minimum" tax on their capital-gains deduction.

At trial in the Tax Court, the Andersons pointed out that the minimum tax applies to "every person" on tax-preference income in excess of $10,000 and that if they were living together unmarried they would get an exclusion of $20,000. The court agreed, but it still held that they owed the tax on all of their preference income over $10,000. The court cited a provision that married couples filing separate returns can claim a tax-preference exclusion of only $5,000 each. This makes it clear, said the court, that Congress intended to allow married couples only one $10,000 exclusion—no matter how they file—even in a community-property state such as California. Note: Since the case was filed, Congress has raised the capital-gains deduction to 60 percent from 50 percent.

Auto expenses. A new speedup in tax write-offs under the Economic Recovery Tax Act of 1981 has prompted the IRS to modify its rules on deductions for auto-operating costs. A taxpayer who uses the standard mileage rate for the first tax year that a car is put in service after 1980, says the agency, will be considered to have elected to exclude the car from the new depreciation system.

Requests for citations should be addressed to Reader Service, 2300 N Street, N.W., Washington, D.C. 20037.

Labor

Unions' Strategy to Bust The Reagan Budget

Is the President now fair game for attacks by labor on his economic policies? AFL-CIO leaders are mapping ambitious plans to find out.

BAL HARBOUR, Fla.

Organized labor, convinced that public disenchantment with Reaganomics is on the rise, is shaping a strategy to counter the President's economic program and to weaken his political support.

The latest recession, persistent unemployment, high interest rates and still deeper cuts in government social spending—all have persuaded union leaders that Reagan is vulnerable to attacks from labor and its allies that would not have been as effective a few months ago.

Key elements of labor's strategy—

- Intensify lobbying against the President's budget, focusing attention on huge increases in spending for defense while programs for the poor, elderly and unemployed are slashed.
- Mobilize union members to wage grass-roots political warfare against Reagan supporters in November's congressional elections.
- Cement ties with the Democratic Party to insure a bigger union voice in picking the 1984 presidential nominee.

"One has to look back 50 years to see such a heartless official reaction to the hardship and suffering of millions of unemployed Americans," said the executive council of the AFL-CIO in a statement issued at its mid-February meeting in this Florida resort village north of Miami.

One point on which labor is certain to continue hammering in coming months is unemployment, which experts say may top 10 percent before year's end. Already, 9.3 million people who want to work are jobless, and union leaders blame Reagan's policies. Declares AFL-CIO President Lane Kirkland: "Millions are suffering and cannot be told, 'Wait, prosperity is just around the corner.'"

Moreover, AFL-CIO economists estimate that each 1 percent of unemployment costs the federal treasury 30 billion dollars—25 billion in lost taxes and 5 billion in relief benefits.

Rising unemployment already has forced the administration to back down on plans to cut jobless benefits and close some state employment offices.

Despite recent efforts by the White House to smooth relations with the AFL-CIO, the estrangement became dramatically clear during a visit to the Bal Harbour meeting by Vice President George Bush. After an hour of vigorous give-and-take with the 35-member council, mainly on budget matters, both Bush and the union leaders reported that little progress had been made toward a common ground.

"We simply disagree on many of the basic issues that face this country," said Kirkland. The rhetoric escalated, however, when the AFL-CIO president told reporters that, in the meeting with Bush, he had called Reagan's program "Jonestown economics," a reference to the suicide and murders in 1978 of more than 900 followers of the Rev. Jim Jones in Jonestown, Guyana. Bush countered by accusing Kirkland of "groping for a headline." He called the labor leaders "absolutely wrong" in opposing Reagan's economic program. Secretary of State Alexander Haig also met with the labor chiefs, but Secretary of Labor Raymond Donovan was not invited.

STEVE YARMOLA—AFL-CIO

Vice President Bush with AFL-CIO's Kirkland. Despite peacemaking efforts, administration and labor still disagree on the basics.

Not all of the union leaders were as firm in criticizing Reaganomics. Some suggested that the President should be given more time. "All this trouble didn't happen under him—his program is only 4 months old," said Thomas W. Gleason, president of the International Longshoremen's Association.

For the most part, the unionists and their Democratic allies are heartened by new signs of vulnerability in Republican ranks and by polls that show many Americans are losing faith in Reagan's economic leadership.

In Congress, among Republicans and Democrats alike, opposition to the President's fiscal 1983 budget is mounting. Unacceptable to many legislators is a projected 91.5-billion-dollar deficit in a budget that boosts defense spending by 33 billion dollars while cutting from previously weakened social programs.

Age-old struggle. To union leaders, the conflict is a classic one. "The administration says the people will have either guns or butter, and they've decided no butter," contends Albert Shanker, president of the American Federation of Teachers. Adds Kirkland: "This strong country, properly managed and led, ought to be able to do both."

Moreover, recent polls commissioned by Democrats show that, while the President remains personally popular, 57 percent of those surveyed think his handling of the economy has "gotten pretty seriously off on the wrong track."

All this is generating optimism among labor leaders who now see a chance to recover some of the political ground lost in the 1980 GOP landslide. As to labor's influence, "there is an upbeat feeling about the future that did not exist a year ago," says Glenn Watts, president of the Communications Workers of America. He explains: "People now are seeing what the administration's policies have done."

Already, the AFL-CIO's political machinery is gearing up for November. The federation's Committee on Political Education (COPE) is compiling a list of congressional districts where labor will focus money and manpower in hopes of picking up 11 to 15 seats. Key targets will be traditionally Democratic districts lost to Republicans in 1980.

Union fund raising is running ahead of schedule, according to the

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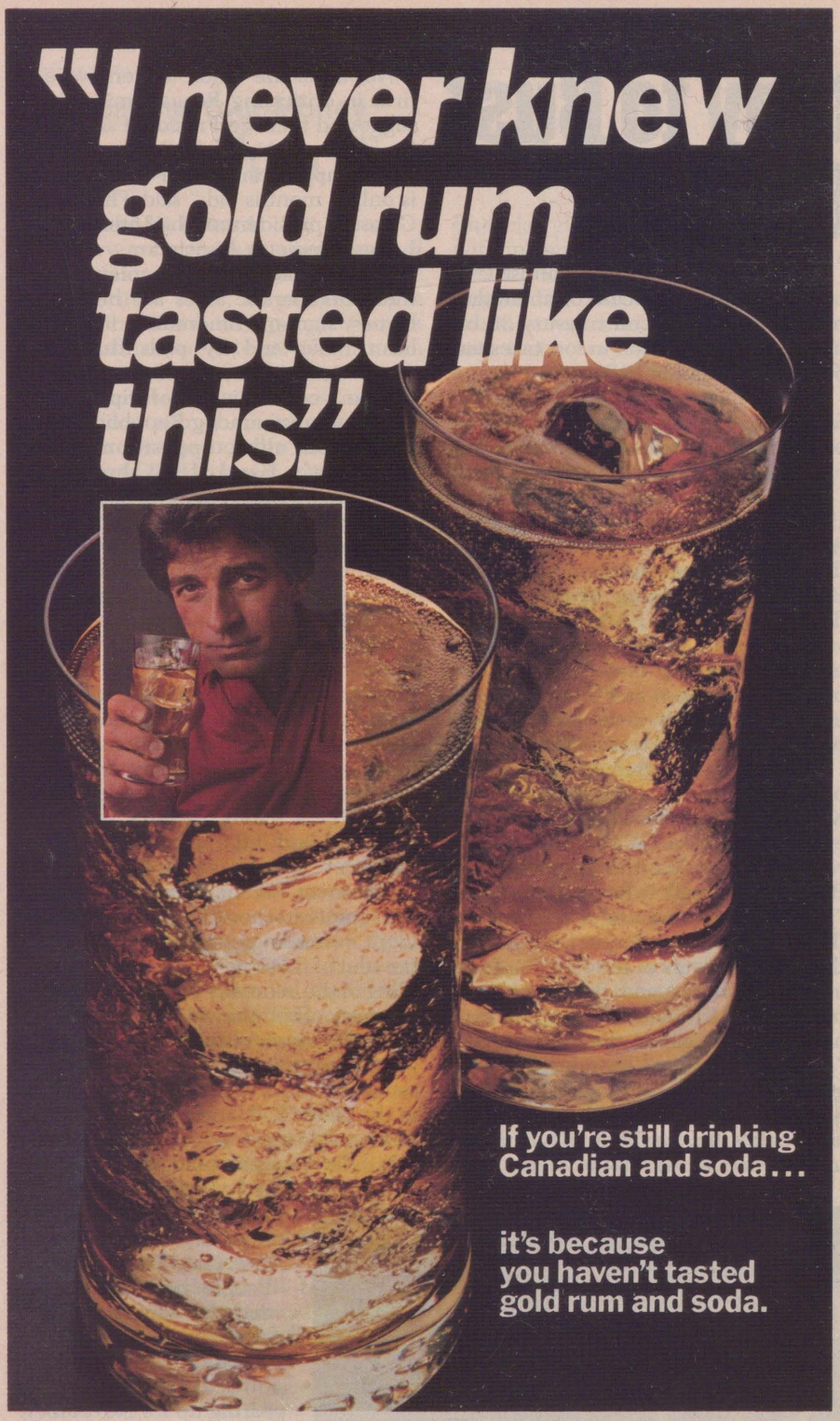

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CWA's Watts, who also is cochairman of the Democratic National Committee's Labor Council. "Because of the economy, we are seeing a lot more people getting involved," says Watts.

The AFL-CIO is set to try out new communications and fund-raising techniques, many of which were used effectively by conservatives in the last election. Computerized mailing lists, closed-circuit television and sophisticated polling methods will be used to a greater degree.

But what unions feel they will be able to count on most is their manpower. "The technology is good, but nothing beats the face-to-face contact," says Evelyn Dubrow, chief lobbyist for the International Ladies' Garment Workers Union. She adds: "We've got to get the troops mobilized."

In the meantime, the AFL-CIO is firming up its links with the Democratic Party. It already holds almost three dozen seats on the Democratic National Committee and played a key role in a recent rule change that will give party regulars and elected officials a bigger voice at presidential conventions.

Labor leaders want to avoid a repeat of the 1972 and 1976 campaigns, when open conventions produced candidates undesirable to many union chieftains.

Labor's cure. Responding to Reagan's challenge to political foes to "put up or shut up," the AFL-CIO council also is offering its own remedy for curing the nation's economic ills. In the months ahead, labor and its allies will lobby Congress to:

- Trim 31 billion dollars from budget deficits by revising federal tax laws. This would include limiting 1982 and 1983 income-tax cuts to $700 per family and closing loopholes in the "windfall profits" tax on oil.
- Create jobs and cut unemployment with massive public-works projects, job-training programs and a New Deal-style Reconstruction Finance Corporation to assist ailing industries.
- Scrap Reagan's plan to put less money into federally funded social programs—mostly for the poor, elderly and unemployed.
- Finance any increases in defense spending by a progressive surtax on corporations and individuals.

Declares Kirkland: "The battleground is the Congress. . . . We will be seeking to find those who will rally around this program."

Yet union leaders recognize that the course of the economy more than anything else will determine the success or failure of the AFL-CIO program and its own hopes for a political recovery. □

By JEFFERY L. SHELER

GM and UAW On Collision Course

THE STAGE IS SET for what could become a bitter conflict later this year between the United Auto Workers and its biggest employer, General Motors.

The UAW and Ford Motor Company reached early agreement in mid-February on a 31-month contract that could save Ford about 1 billion dollars in labor costs by 1984. Its effect is to leave GM with the highest wages and benefits among the big auto makers. The union previously had made concessions to Chrysler Corporation.

"It would be intolerable" for GM to stand alone as the high-cost company, says auto analyst David Healy of Drexel Burnham Lambert. GM Chairman Roger Smith agrees. He vows not to allow GM to remain at the top of a three-tiered wage structure in the industry.

The UAW and GM had tried earlier this year to negotiate wage concessions, but talks collapsed on January 28, chiefly because of strong opposition from rank-and-file GM workers. Union officials see little hope of changing the present contract before it expires on September 14.

Then, the union will have no choice but to negotiate. Its options might be limited to accepting sharp rollbacks, working without a contract or striking from a weak position. UAW President Douglas Fraser says GM "could lay down the economics we'd have to work under or go out on strike."

With more than one third of Ford's 159,000 production workers laid off, chances of ratification appeared good. A council of 144 local-union officers approved the pact on February 17 with only 12 dissenting votes and sent it out for a rank-and-file vote. Among other things, the union agreed to forgo normal 3 percent annual pay raises, postpone additional raises pegged to increases in consumer prices and give up 10 days a year of personal leave.

Whether the savings will mean lower car prices, however, is another matter. Indications were that Ford, which lost an estimated 1 billion dollars in 1981, would use the savings to improve its financial position—at least initially.

Ford and all other U.S. car makers already are offering some form of rebate to buyers. Even so, the industry remains in the most prolonged sales slump in half a century—an indication that lower prices, by themselves, may not cure Detroit's ailments. □

NEWS-LINES®

Court and Government Decisions With Impact on Business, Employes, Consumers

INVESTORS will be able to speculate on the stock market in a new way by buying futures tied to a stock index. A new futures contract, approved by the Commodity Futures Trading Commission, will be traded on the Kansas City Board of Trade and is based on 1,700 stocks. It is designed to let securities holders protect themselves against changes in the securities market. Other commodities exchanges have proposals for similar contracts awaiting the commission's approval.

PRIVACY CLAIMS of a defendant in a sexual-harassment case are not strong enough to warrant the sealing of court documents from public view. So rules a federal district court in rejecting the plea of the defendant and his employer that disclosure of the information has a detrimental effect on personal and business interests. Although court records might be sealed for privacy interests in some cases involving a sexual relationship, the court found that many aspects of the case had already been disclosed to the media and that others would be revealed during court proceedings.

PERSONAL SAMPLING devices can be attached to employes during a workplace inspection by the Occupational Safety and Health Administration, says the agency in a rule interpretation. The devices, used to determine an individual worker's exposure to toxic substances or noise levels, were not previously referred to in OSHA's rules. This led to objections from employers and to a court's decision that the employer should be given "fair warning" of their use. In addition to issuing the interpretation, OSHA also requests comments by April 13 about the safety of using the devices.

A NONPROFIT SHELTER that provides training for mentally retarded adults is included in the jurisdiction of the National Labor Relations Board. As such, it must follow an NLRB order to bargain with a union, says a federal appeals court. The court finds that in 1974 amendments extending the National Labor Relations Act to employes of nonprofit hospitals, Congress recognized that nonprofit institutions do affect commerce, and therefore are included in the NLRB's purview.

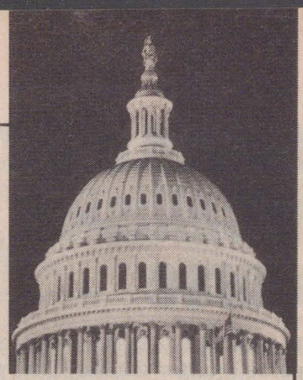
PRIVATE LENDERS of mortgage money in California are prohibited from enforcing due-on-sale clauses just as institutional lenders are, says the state supreme court. Such clauses prevent property buyers from assuming old, low-interest mortgages. In cases involving private or institutional lenders, says the court, the sale of the property may be prohibited if the lender is permitted to call the note due, since other financing may not be available.

AN EXECUTIVE who accepted special retirement benefits and took early retirement when he found his job was to be eliminated in a corporate reorganization does not have a legitimate age-discrimination claim. A federal appeals court rules that since the executive accepted benefits voluntarily, he was not discharged within the meaning of the Age Discrimination in Employment Act.

THE COTTON-DUST standard will be reviewed by the Occupational Safety and Health Administration, which seeks public comment by March 26. The 1978 standard will remain in effect while OSHA considers such issues as its use in nontextile industries, effects on small businesses, health data and alternative compliance approaches.

A BEARDED POLICE OFFICER who grew the beard to conform with Islamic religious laws cannot be discharged because of it, rules a U.S. district court. It says the police department would have to show a compelling reason to support the beard ban in order to justify the intrusion on religious beliefs.

Conclusions expressed here are based on decisions of courts, government agencies and Congress. For reasons of space, these decisions cannot be set forth in detail. On written request, U.S.News & World Report *will refer readers to the basic material.*



A Prickly Budget

By Marvin Stone

One sure thing about the mammoth budget President Reagan has proposed for 1983 is that it will be changed substantially by Congress—and it should be.

The President's planned deficit of 91.5 billion dollars is far too big. The size of such a shortfall, when coupled with a forecast that red ink also will mount by scores of billions in 1984 and 1985, raises doubts that the federal government can ever learn to live within its income. That prospect conjures up so many fears of new inflation and perpetually tight money that investors understandably are holding out for interest rates at what used to be considered usuriously high levels.

The administration would like to keep cutting away at the costs of human services, especially the so-called entitlement programs such as medicaid and food stamps. But Congress isn't likely to go as far as Reagan wants. Proposed increases in defense spending are far more likely to be trimmed. Close attention must be given to measures making sure that the country gets full value for each defense dollar spent.

In the end, the President also probably will have to swallow some changes in tax benefits given to business—especially the oil industry—last year. Clearly, Congress believes the people want the huge deficits pared. Even the President and his closest aides, including Treasury Secretary Donald Regan and Budget Director David Stockman, are inviting members of Congress to come up with their own ideas.

The seriousness of the rebellion is measured not only by the switch of leading Republicans but also by moves of people such as Representative Phil Gramm (D-Tex.), one of the commanding generals in the push that carried the day for last year's budget. He favors increasing some excises, "closing tax loopholes," spending less for defense and reducing foreign aid. By these actions he hopes to cap the deficit below 60 billion dollars in 1983 and get close to a balance by 1985.

Something like Phil Gramm's prescription, and maybe more, will eventually prove necessary. Another approach is that of Representative Denny Smith (R-Oreg.). He proposes a "leveling" of federal expenditures, category by category, for a year or two. The psychology is that people and agencies geared to fight tooth and nail against a cut in appropriations would go along with just not getting more. This, Smith reasons, would give revenues a chance to catch up and eventually balance the budget.

Soon after Denny Smith broached his idea, Senator Ernest Hollings (D-S.C.) unlimbered the big guns on the Senate floor and fired off the same proposition. Hollings would, additionally, take away part of the Reagan tax-rate cut.

A year ago one might have dismissed the Hollings speech as a standard opposition response, but times have changed. Senate Majority Leader Howard Baker rose to pay Hollings superlative compliments. Republican stalwart Robert Michel, minority leader in the House, has joined to express his interest in income leveling. It is clear that this plan, whereas it could not go through without some modification, will be on the minds of prominent legislators in both parties. And they are getting together now to seek a bipartisan solution for budget troubles.

Yet, what should the starting point be? For all the changes that need to be made, the obvious starting point is also the best one—the Reagan budget itself.

The budget takes another step toward corralling the growth of payments of federal tax money to individuals. It makes the right gestures toward cutting out waste and fraud—even if that goal is easier to state than to reach. It sticks with the President's basic goal of letting people keep more of their earnings, avoiding the temptation to withdraw tax cuts even before people have tasted them.

The budget as submitted should not simply be abandoned. It is a proper basis for debate—even though it will have to come out far different in the end.

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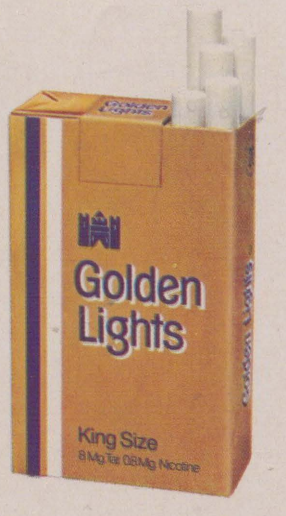

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